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ABSTRACT

The High Skills, Competitive Workforce Act of 1991 is proposed legislation designed to stimulate cooperation by business, labor, schools and colleges, and state and local governments to improve the education and training of the U.S. work force and to develop new systems and strategies for meeting the economic needs of business and workers. The act has the following provisions: (1) the development of voluntary educational and occupational standards to assess student performance and provide meaningful information on worker skills; (2) school-to-work transition programs and second-chance programs for dropouts; (3) encouragement of businesses to improve their productivity and competitiveness; and (4) increase in the training and education of the U.S. work force, requiring employers to provide training or pay 1 percent of payroll into a state-administered training fund. This document reports the oral and written testimony of witnesses who testified in favor of the bill at a Senate committee hearing. Those providing testimony included Senators Kennedy, Hatfield, and Hatch; Representatives Regula and Gephardt; and spokespersons from the Commission on Skills of the American Workforce and the National Alliance of Business. A summary of the act's provisions is included in the report. (KC)

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S. HRG. 102-315

HIGH SKILLS, COMPETITIVE WORKFORCE ACT OF 1991

ED340917

HEARING

BEFORE THE

COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

ON

S. 1790

TO ENHANCE AMERICA'S GLOBAL COMPETITIVENESS BY FOSTERING A HIGH SKILLS, HIGH QUALITY, HIGH PERFORMANCE WORKFORCE, AND FOR OTHER PURPOSES

OCTOBER 1, 1991

Printed for the use of the Committee on Labor and Human Resources

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THE HIGH SKILLS, COMPETITIVE WORKFORCE ACT OF 1991

TUESDAY, OCTOBER 1, 1991

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, DC.

The committee met, pursuant to notice, at 10:37 a.m., in room SD-430, Dirksen Senate Office Building, Senator Edward M. Kennedy (chairman of the committee) presiding.

Present: Senators Kennedy, Wellstone, and Jeffords.

OPENING STATEMENT OF SENATOR KENNEDY

The CHAIRMAN. We'll come to order.

I will place my entire statement in the record as if read, and we will begin this morning by hearing from two of the principal sponsors of the legislation in the Senate and the House of Representatives, Senator Hatfield and Congressman Regula. We are delighted to welcome you here to speak on this subject, which I think all of us believe is of vital importance in terms of our economic security and our democratic institutional security as well.

[The prepared statement of Senator Kennedy follows:]

PREPARED STATEMENT OF SENATOR KENNEDY

The American economy is at a turning point, and the future standard of living for all Americans is at risk. Success in international competition and a high standard of living for all citizens depend in large measure on the education and skills of the nation's workforce. In turn, that means businesses must invest in their workers and improve the way they produce goods and services.

Our major international competitors have long recognized this challenge, and they are ahead of us in meeting it. They are all committed to a high productivity, high wage strategy for their economies. The United States does not yet have such a strategy. In fact, we are pursuing a low-wage strategy that is driving our standard of living down instead of up. As a result, we are at a competitive disadvantage in the new global economy, and the disadvantage is growing.

The High Skills, Competitive Workforce Act is designed to stimulate cooperation by business, labor, schools and colleges, and state and local governments to improve the education and training of the U.S. workforce, and to develop new systems and strategies for meeting the economic needs of business and workers.

In essence, the Act does four things:

First, it calls for the development of voluntary educational and occupational standards to assess student performance and provide meaningful information on worker skills;

Second, it creates school-to-work transition programs, including job finding assistance for 'students and graduates, and "second-chance" programs for dropouts;

Third, it encourages businesses to improve their productivity and competitiveness;

Fourth, it increases the training and education of America's workforce, requiring employers to provide training, or else contribute one percent of payroll into a state-administered training fund.

This effort has special urgency, because the American standard of living is slipping, and our international competitive position is eroding. We must invest in our workforce. In today's global economy, the quality of a nation's workforce is its most important asset. Investing more in America's workers is the key to America's future economic success.

In the United States today, we are failing to make those investments, especially for our "front-line" workers—the men and women who build the cars, operate the computers, and carry out the millions of other jobs that make the economy go.

All of our major competitors invest more in training. A newly-hired Japanese auto worker gets over 300 hours of training in the first 6 months of work. In contrast, American workers get less than 50 hours—a 6 to 1 advantage for the Japanese.

Development of this legislation was stimulated in large measure by the groundbreaking work of the bipartisan Commission on the Skills of the American Workforce, chaired by former Labor Secretaries Bill Brock and Ray Marshall. Their 1990 report, America's Choice, correctly identified the choice facing the Nation—high skills or low wages. The report summons us to action, before our current economic decline becomes irreversible.

On an issue of this magnitude, all sectors of society must participate—schools and colleges, state and local governments, business, and labor, community organizations, and many others. This is not a partisan issue, nor is it confined to a narrow set of interests. It touches all Americans.

In the coming months, we will be asking many groups for their assistance. This legislation is not a new centralized Federal program, but an effort to catalyze and stimulate activities best carried out at the State and local level and in the private sector.

In each of the topics addressed by the Act, there already are world-class examples in the United States. But these isolated and uncoordinated efforts are not enough. They are not being replicated across the Nation. There is no national policy to identify them or encourage them. That is the why we need this legislation.

This legislation, like the OSHA bill I introduced a few weeks ago, seeks to find the best way that government can work with the private sector for the most effective pursuit of goals that we all share. Whether the issue is the plant-level health and safety committees we called for in the OSHA bill, or the increased private training effort called for here, we are not seeking new areas of regulation. Rather, we want government and the private sector to be allies in

achieving a strong and just economy. We want to find private multipliers for public programs, because otherwise these public programs will fail.

The American economy is in more trouble than any of us like to admit. We can continue to pursue a low-wage "live for the moment" strategy, but that short-sighted step will worsen our long-run problems, and put us in a "race to the bottom" with Third World nations. That is a race that we cannot win, and should not run. No other major industrial nation is pursuing this strategy—and neither should we. The United States cannot afford to become an economic colony of Europe and Japan.

There is another path. We can return to a high productivity, high wage strategy, with the promise of a better standard of living for all Americans, not just for the few who can avoid being stranded by the receding tide. The Act that we are introducing today can make a major contribution to implementing that strategy, so that future generations can continue to realize the promise of this country. The required steps will not be painless or easy, but they are absolutely necessary for our future prosperity.

BRIEF SUMMARY OF HIGH SKILLS, COMPETITIVE WORKFORCE ACT OF 1991

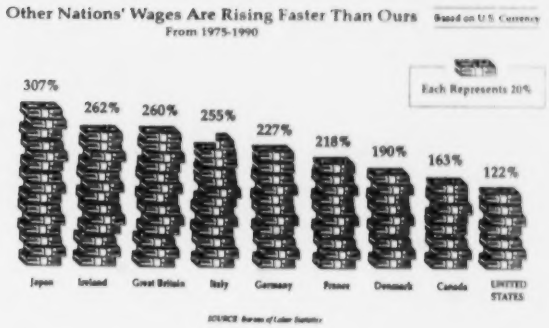
School-to-work programs for all students, including career preparation, assistance in finding jobs, technology education, and youth opportunity centers where government-funded education programs would be available for students who drop out of school to enable them to achieve educational and occupational proficiency.

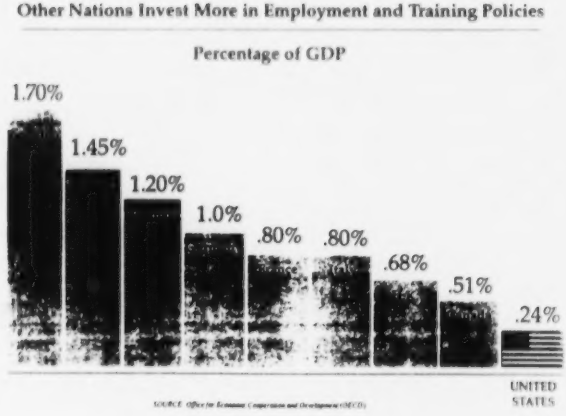
Corporate support for worker training. The bill would require that companies either invest in training or pay the equivalent of one percent of their payroll into a State administered training fund. Companies that already make such training investments would be exempt, as would firms with fewer than 20 employees.

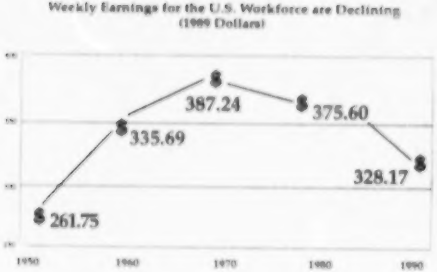
Research by the States on voluntary performance-based student assessment systems, and development of voluntary occupational standards crafted by committees with business, labor, and public representatives.

High performance work organizations. The bill authorizes technical assistance to employers to help them develop work organizations that emphasize teamwork, front-line decision making, and increased worker responsibility. Only 5 percent of American businesses have moved to the type of high performance work organizations employed successfully by our chief economic competitors.

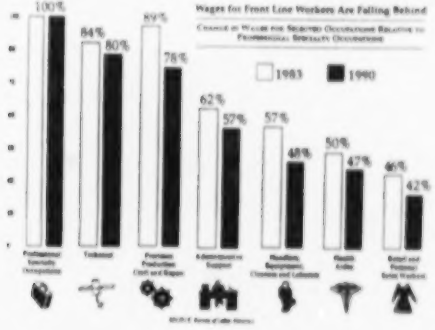
Coordination of State and local training programs. The bill encourages the development of State and regional training boards to coordinate the administration of Federal, State, and local employment and training programs, including the Job Training Partnership Act, vocational education and rehabilitation, and dropout prevention. A Federal study would be commissioned to examine ways to eliminate gaps in service and unnecessary duplication of services and increase overall effectiveness of employment and training.


Other Nations' Wages Are Rising Faster Than Ours
From 1975-1990
Based on U.S. Currency
Each Represents 20%
307%
262%
260%
255%
227%
218%
190%
163%
122%
Japan
Ireland
Great Britain
Italy
Germany
France
Denmark
Canada
UNITED STATES
SOURCE: Bureau of Labor Statistics


Other Nations Invest More in Employment and Training Policies
Percentage of GDP
1.70%
1.45%
1.20%
1.0%
.80%
.80%
.68%
.51%
.24%
UNITED STATES
SOURCE: Office for Economic Cooperation and Development (OECD)


Weekly Earnings for the U.S. Workforce are Declining
(1989 Dollars)
$ 261.75
$ 335.69
$ 387.24
$ 375.60
$ 328.17
1950
1960
1970
1980
1990

Twelve Industrialized Nations Have Higher Wages Than the United States
Australia
$16.02
Italy
$16.20
Canada
$15.94
UNITED STATES
$14.83


Wages for Front Line Workers Are Falling Behind
1983
1990
100%
84%
80%
89%
78%
62%
57%
57%
48%
50%
47%
46%
42%

The CHAIRMAN. Senator Hatfield?

STATEMENT OF HON. MARK O. HATFIELD, A U.S. SENATOR FROM THE STATE OF OREGON

Senator HATFIELD. Thank you, Mr. Chairman.

I will offer my full statement to be placed in the record, and I would like to just highlight if I could.

Mr. Chairman, many years ago, when I entered Salem High School, it was a brand new building; it was made of beautiful brick, and there were about 1,800 students. In the back of the building was a parking lot, and in the middle of that parking lot was a gray concrete building—no brick—designed somewhat as prisons are designed, I guess—and that was the shop, called "the shop". And if you had indicated strongly to your counselor or to your advisor that you had no plans to go to college, for whatever reason, you were counselled to "the shop", detached from the main building.

The chairman this morning of this outstanding commission talked about the elitism that has developed over the years in our education systems. I call it educational snobbery.

I am proud to be a product of the liberal arts. I believe in liberal arts education. Nevertheless every student, even in my generation, was not headed for college, and yet the curriculum was geared solely and exclusively for college preparatory work, assuming that everybody at least should go through that same curriculum.

Many years later, when I became Governor, having come out of the academic field in a private university role, the assumption was that my budget would carry the highest priority for the existing 4-year degree—granting institutions. We were in a recession at the time, there was a tight squeeze on money, and I indeed put the top priority on higher education. But at the same time we launched a community college program which was to be a two-year transfer and a 2-year terminal program focused upon vocational-technical education, built upon a very important study that had been set up by the legislature. So we had in a parallel pattern, so to speak, the database on the need. In all of this, we were hoping at the same time to draw into a greater role the business community.

Now, I only tell that little incident, that is totally irrelevant, perhaps, to many, but still to illustrate the point that what is proposed in this piece of legislation is innovative but not strange. It is founded on a broad base of information and data to give it authenticity and to focus on the need. I think it is also in its real essence not an effort to Federalized the problem but, if anything, to decentralize the problem into the areas where resources already exist.

I think too, oftentimes, we assume that a problem has to be Federalized in order to deal with it, and out of that comes frustrations of bureaucracy and frustrations of costs and rising costs and administering a program, and less and less of the appropriated dollar that actually ever gets to the recipient, for whom the program is really created.

But here, what we are doing is maximizing what is going on out there already and the resources out there already. Let me just use an illustration. Cities in Schools is one of the very important programs that was founded out of the private sector by Bill Milliken

during President Carter's presidency. If you went down to Atlanta today, you would see that they have very effectively linked the resources of the private business community into the needs of the local schools of Atlanta. It is also in other cities. But it is a well-functioning activity of linking those resources for technical training and technical education.

If you go out to Kalamazoo, MI, you will find that the Upjohn drug company has done the same by coordinating the math-science program, as I have testified before this committee, amongst the 12 public high schools in Kalamazoo.

If you go out to the West Coast, you'll find Hewlett-Packard. There is a lot of activity of industry knowing and recognizing already the needs of getting trained personnel to feed not only their future needs, but to be competitive in the world market.

Now we have in addition a national commission that has added to the evidence. We are really just adding to evidence that is piecemealed across this country by the experience of people in business and people in the local communities—leaders in education, political leaders.

I mentioned the State of Oregon—and I will not repeat myself—at the press conference and the innovation of trying to deal with this need at the secondary school level in the last 2 years of that 12-year program by providing a fork in the road for students where they may choose one or the other fork, not locked into their choice if later they want to cross over to the college prep program or to pursue the vocational-technical curriculum.

We don't know it is going to work. When Vera Katz, our speaker of our House of Representatives, the Portland representative, first proposed this, it was greeted with gasps of disbelief or surprise, mixtures of various emotions. But as people began to look at it and study it, like anything else that breaks the traditions—and let me tell you, tradition can be a very great continuity of history, but tradition can also be a great impediment to progress and I think sometimes, coming out of the field of education, I can say this, that some of the worst examples of fossilized traditions are in educational institutions and structures themselves. That's not to say they are all that way, but I certainly found that in my own personal experience.

So that consequently, we are maximizing the activities out there, the resources out there.

Now, Mr. Chairman, I see in no way that this is competitive with the Secretary of Education and President Bush's Education 2000 and the program that has been launched by the administration. You and I had the experience of having to meld our efforts in math-science to make sure the administration understood that we are not standing out here in a competitive role, even though it would be our legislative constitutional right to do so if we wanted to. But we are trying to be helpful and complementary to the efforts of the administration.

I am very hopeful that we will get a ringing endorsement by Secretary Alexander and by the administration officials for this. After all, it was bipartisan from its founding; it is bipartisan in its introduction, and it will only be successful through bipartisan effort. And there is enough of the problem—the problem is so huge I

think any effort is complementary to any other effort and not competitive in that sense.

So I make those comments in the sense of trying to lay the foundation for public understanding that we are not saying to business "You are derelict"; we are not saying to local educational institutions "You are benighted and not facing your responsibilities"—we are not doing this as a critical action; we are doing it to meet a critical problem and employing all of our resources and giving opportunities for all of them to participate in the solutions.

It is very interesting to note that In 1909, Henry Ford produced his first Model T. History tells us that it cost about $950. Within a very short time Henry Ford was producing Model Ts from the first moving assembly line, and that brought the price down to $300. Increased technology.

Then, it was very interesting—by 1914, he was producing one automobile every 24 seconds, and he was paying his employees $5 per hour, which was about twice the wage rate of factory workers in 1914, and in part to keep them on the job, because it was a monotonous, dehumanizing experience.

Now, you could say that we are now facing another level or era in the development of production. Today it is not so much that we say those assembly are being "manned" with the human factor in the word, not by people, but by electronic monitors, robot arms, computers, etc, etc, because of the Nation's technological advances. But the sad news is that many of our Nation's young people do not possess the skills and knowledge to either pursue higher education or enter that workplace to work these high technical positions.

So this to me is the opportunity to at least address the subject. There is no panacea that is going to cure every facet of it, but certainly it is a step that is so important to take, and I am very honored, Mr. Chairman, to be associated with you again in an educational cause and to be in company with our distinguished colleagues, Mr. Gephardt and Mr. Regula from the House of Representatives.

Thank you.

[The prepared statement of Senator Hatfield follows:]

PREPARED STATEMENT OF SENATOR HATFIELD

Mr. Chairman, I would like to commend you and your colleagues for your leadership in the critical issues of workplace skills, school-to-work transition, and economic competitiveness.

I am proud to be here this morning representing my state of Oregon, which has taken a nationally prominent role In addressing these Issues In relation to its public education system. The problems we face are, unfortunately, one consequence of the Inability of our educational systems to keep up with the rapidly changing technology in the world outside the classroom.

When Henry Ford marketed his Model T in 1909, he sold 11,000 of them for $950 apiece. When he introduced the moving assembly line a few years later, the price plunged to under $300, and by 1914 his factory was turning out one Model T every 24 seconds. Ford's workers were paid $5 per day, almost double the wages of other factory workers, to prevent them from quitting what has been described as "the monotonous, dehumanizing assembly line."

Today, the assembly line has indeed been dehumanized. It is attended—we can no longer say "manned"—by electronic monitors and robot arms, products of our Nation's technological advances.

The sad news is that many of our Nation's young people do not possess the skills and knowledge to either pursue higher education or enter the workplace. Many adults lack the skills to enter or to retain positions In the current Job market.

In 1990, the report America's Choice: High Skills or Low Wages forced us to confront nationwide deficiencies among our youth, not only In academic achievement but also in workplace preparedness. This report stimulated a lot of discussion in many States.

There was more than talk in my home State. The Oregon State Advisory Council for Career and Vocational Education developed its 1991 recommendations for workforce development, naming its report "OREGONizing America's Choice." Guided by the recommendations of the High Skills or Low Wages report, State Representative Vera Katz of Portland formulated legislation called "The Oregon Educational Act for the 21st Century," which was signed into law by Governor Barbara Roberts in July.

The Oregon plan was developed for Oregon by Oregonians. It is not intended to be a blueprint for other States. The essence of the legislation Senator Kennedy and I are introducing today is that each State must confront, in its own way, the dilemma of high skills or low wages.

Our legislation challenges the States by providing resources to address the critical problems of reclaiming high school dropouts, preparing all students with basic workplace skills and career awareness, upgrading employee skills for creating high performance workplaces, and coordinating Federal and State training programs. This legislation includes a number of provisions, each of which is significant enough to stand alone but which, together, reveal the magnitude of interrelated problems that we face and must solve.

In the Excellence in Mathematics, Science, and Engineering Act of 1990 which became law last year, Senator Kennedy and I sought to strengthen the educational opportunities of the people who will develop the new technologies which will eventually find their way into all American workplaces. In the High Skills, Competitive Workforce Act of 1991, we hope to provide opportunities for those who will use existing technologies and adapt to new ones to keep our Nation competitive in the global economy.

I would like to insert in the record a letter from Governor Barbara Roberts of Oregon in support of this important legislation.

Thank you.

OFFICE OF THE GOVERNOR
Salem, OR, October 1, 1991.

Senator Edward M. Kennedy, Chairman,
United States Senate,
Washington, DC.

DEAR MR. CHAIRMAN: Oregon's Legislature and I drew heavily on "America's Choice: high skills or low wages!" as we developed the Oregon Educational Act for the 21st Century. Clearly, you drew on this innovative report as well with the High Skills, Competitive Worforce Act of 1991.

Like our education reforms in Oregon, the Competitive Workforce Act sets national, world class standards for excellence and provides broad career choice options through the college preparatory and certificate programs. And the Act coordinates and promotes employment training programs so that they are as efficient and productive as possible. The Competitive Workforce Act makes a smart investment for our future by developing our greatest natural resource: our people.

I applaud you, Mr. Chairman, Senator Hatfield, Representatives Gephardt and Regula, and the other involved Members of the Senate and House for your vision and support in developing this landmark legislation.

Sincerely,

BARBARA ROBERTS
Governor

The CHAIRMAN. Thank you very much.
Congressman Regula.

STATEMENT OF HON. RALPH REGULA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO, 16TH DISTRICT

Mr. REGULA. Thank you, Mr. Chairman. I ask unanimous consent to make my entire statement a part of the record.

The CHAIRMAN. It will be included in its entirety in the record.

Mr. REGULA. I was interested that the National Association of Manufacturers in the press release said—and I quote—"While we cannot support the bill in all of its particulars, it correctly recognizes that the best investment business can make is in its employees. We can talk all we want about producing quality goods, but until we ensure that our workers have the necessary education to keep up with technology, we are going to lag behind our international competitors." They go on to say that "by devoting resources to improving the education of our workers, we will have the capacity to produce higher-quality goods, which translates into more jobs and a stronger national economy."

I think that says very well what the objectives of this bill are. Obviously, there will be many differences in the ideas brought before this committee and others that are participating in the evolution of a final product. Senator Hatfield mentioned the President's program, the objectives for the year 2000, and I think this is complementary to that rather than in conflict because it addresses a gap in our education program.

And obviously, to support the kinds of objectives of the 2000 program, we need to have a strong industrial economy. It is the industrial economy and those who participate that provide the taxes that support our public education facilities, and therefore it is vitally important that they be strong and productive and competitive if they are to be able to support the services of government, particularly in education, in the years to come.

On a personal note, I was very much involved in the leadership and the creation of Stark Technical College in Ohio some years ago. This institution is meeting an extraordinary need in our area.

For instance, Stark Technical College offers courses that teach students how to advise factories and business about limiting the amount of waste they produce even before the production starts. Stark Tech is geared to address the 70 percent of our young people who do not go on to college and yet need skills to participate effectively in our industrial economy.

I think one of the things that has not yet been mentioned is that in the evolution of this program we need to take into account the enormous potential resources that already exist in our vocational and technical schools in this Nation; I see this as a way of utilizing their capabilities even more effectively on behalf skills. So I hope that as we evolve this legislation, we will avoid duplicating existing programs, but rather enhance them with the objectives of this bill.

We in America are capable of meeting great challenges. We seem to meet each and every goal we set out for ourselves. President Kennedy set a goal of reaching the moon, and I think only because that goal was laid out did America respond and succeed in that objective. But one of the things that is characteristic of our Nation is that we have to be convinced that something is important. President Kennedy made that an important goal, and we achieved it. And I think that something that is important for tomorrow will be our ability to complete in what I call the world economic superbowl, with the common market, with the Pacific Rim. And the reward to the winners will not be a gold ring, but rather a high quality of life, a high standard of living.

We have to convince ourselves that we do have a challenge as a society in developing highly-skilled workers. Just to give you an example, a couple of years ago New York Telephone had to interview 57,000 candidates to fill 2,000 jobs that did not require a high school diploma, clear evidence of the fact that there is a great body of people who do not have the necessary skills to meet the challenges of today.

Chrysler reports that while its training and technical manuals are written at an 8th grade level, at least 25 percent of its employees now read at our below a 6th grade level.

Motorola, 80 percent of the applicants cannot pass a simple 7th grade English comprehension exam or a 5th grade math test. And I think the anatomy of our crisis is simple. We have the highest dropout and illiteracy rates among the advanced industrial countries, and it is a challenge to upgrade these skills so we don't have that kind of a situation in the future.

A point was made by Secretary Brock is that two-thirds of the workers who will be working in the year 2000 are in the work force today—two-thirds—and that means we need to address those problems among the existing people who are part of the work force because they are going to determine our ability to compete and be a productive society. And this legislation is aimed at that problem.

And of course, I think Senator Hatfield made a very good point, and that is that this is not a case of Federalizing the answer to a challenging problem. If the Federal Government provides the money, it will impose regulations and restrictions and will have an excessive amount of bureaucracy.

Business knows what sort of formal education is best and what would help their employees and their profit margins, and I think if

this is to be successful—and therefore I am pleased that we get support from NAM, and I am sure the statement of Mr. Sloan of NFIB will fit into this also—the business and industrial community needs to be very much a part of shaping a final package. This is not intended to be the last word on how we solve the problem. It is a work draft, one attempt. We are focusing on those who have dropped out of school and those who go from one entry-level position to another, and on our business community and businesses where they cannot afford to train employees who will then be hired by others.

In my own district, the Wilbert Company—Mr. Featherstone is here this morning, the CEO—has done, I think, a very good case study as an example of how this can work extremely well. It is a relatively small business, and yet their program of upgrading skills of their employees has been quite effective in making them more competitive in the marketplace. And perhaps the most important thing is that the employees like it. They like the fact that they are getting an upgrade of skills—and it spills over not just to their ability to be more effective in the 40 hours a week, but it means they gain skills that will enhance their quality of life. The gaining of greater math and literacy skills means that they will have a better quality of life for every dimension of their personal lives.

So this has great ramifications. It means that they will participate more effectively in the society and our political process. I suspect that the program generates volunteerism on the part of these individuals. In our own community we have literacy programs, and people who learn to read suddenly want to get involved. They had always been reluctant to do so for fear that their secret would come out.

So in this program, we not only improve our competitive position but we enhance people's lives and that, after all, should be one of the great goals of any society. So this to me represents a benchmark in the enhancement of our society generally, and I hope that we will have a lot of participation by interested groups so that we can provide an effective means of addressing a great challenge that exists today for all of us.

[The prepared statement of Mr. Regula follows:]

PREPARED STATEMENT OF REPRESENTATIVE REGULA

Thank you, Mr. Chairman. I appreciate the opportunity to address this committee and to join you, Senator Hatfield and Representative Gephardt in introducing the "High Skills competitive Workforce Act of 1991." We have each worked in our own spheres to address these issues, but today we join forces to face our workforce crisis. We do so because of the bipartisan Commission on the Skills of the American Workforce. By proving that leaders from so many diverse fields can unite in recommendations of such magnitude, they have challenged those of us in Congress to do the same.

Mr. Chairman, I am a former educator. I have been a teacher, a principal, and a State school board member. I am a farmer and a lawyer, also, but it was through my role as an educator that I was able to see our future. These children hold so much promise, but they need our help. Because of their unique attributes, they may or may not be well-served by the traditional course of high school on to college.

Many of my students went on to college and are successfully participating in our society. They will have many advantages in this world and will be able to move in and out of several jobs and careers. But those who complete a college education represent only 30 percent of our young people. Are we willing to bet our country's economic future on the higher education of three out of every ten of our citizens?

I am not willing to. In fact, I believe so strongly in helping that other 70 percent that I provided leadership in the creation of Stark Technical College in Ohio. This institution is meeting an extraordinary need in our area. For instance, the Technical College offers courses that teach students how to advise factories and businesses about limiting the amount of waste they produce, even before the production starts.

I am pleased that Stark Technical College is providing solid educational opportunities for some who never go on to receive a liberal arts degree. This institution is having an enormous impact on the residents of Central Ohio.

We, in America, are capable of meeting great challenges. We have sent men and women into space; we have cured diseases; we have peaceful elections; we seem to be able to meet each and every goal we set for ourselves—but only when we are convinced that something is important.

The something that is important for tomorrow will be our ability to compete in the world economic superbowl. The reward to the winners will not be a gold ring but rather a high quality of life.

Why, Mr. Chairman, can we not convince ourselves that we have a crisis in our workforce. A couple of years ago, New York Telephone had to interview 57,000 candidates to fill 2,000 jobs that did not require a high-school diploma.

Chrysler reports that while its training and technical manual are written at an 8th grade level, at least 25 percent of its employees now read at or below a 6th grade level.

At Motorola, 80 percent of the applicants cannot pass a simple 7th grade English comprehension exam or a 5th grade math test.

Each of us believes that the business we are in is doing well, and that the dropout rate in our local school is not a problem. But added together, the forecast for this Nation is dismal. Our productivity growth is not keeping pace with other industrial nations.

The anatomy of our crisis is simple. We have the highest dropout and illiteracy rates among the advanced industrial counties. At least one out of every four of our children does not graduate from high school, and one out of every five adults is in some way functionally illiterate.

We have relied for too long on this large pool of low skill, low wage labor, and yet we know from numerous studies that higher literacy and skills proficiency improves productivity, positively affects morale, and enables employees to articulate their ideas and suggestions.

Relying on low skill, low wage labor has been acceptable because, as the Commission's report shows, "Our economy has grown because we now have 50 percent of our people working instead of 40 percent as in 1973. We added 40 million new jobs. More of us have been working, so we have produced more. Because our economic growth has not come from improved productivity, however, our wages have not improved."

We are about to enter into a labor shortage, a fact which colleges and universities are already witnessing in their enrollment figures. According to former Secretary Brock, two-thirds of the workers that will be working in the year 2000 are in the workforce today. We cannot rely on finding enough skilled workers among our new-hires, but must instead teach our current employees the skills they will need.

Those who oppose this legislation simply because we ask businesses to finance their own worker training are missing the point. If the Federal Government provides the money, it will impose regulations and restrictions. Businesses know what sort of formal education is best—what would help their employees and their profit margins. And by spending their own resources on their employees, businesses will ensure that the training they are providing is useful and the best the market can produce. Yes, we are asking businesses to finance a training program, but to ask them to reinvest their resources in their employees is much different from taking their money and then telling them how they should use it.

We have heard from the businesses in our communities over the years that they are attempting to provide ongoing education and skill training programs, but they quickly lose these employees to their competitors. This legislation levels the playing field.

To dedicate the resources of the Federal taxpayers, and to ask our businesses to invest in their employees is not something I take lightly. I would not sponsor this legislation if I were not convinced that this is the direction in which our country must go. We must take this problem seriously.

Finally, this legislation is not intended to be the last word on how we solve this problem, It is simply a working draft—one attempt. We are focusing on those who have dropped out of school, on those who go from one entry level position to an-

other, and on our businesses who cannot afford to train employees who will then be hired by others.

I hope that those who read this legislation, and who agree that we are facing a crisis, will come to the table to help us meet it head on.

The old quotation rings true again—If you are not a part of the solution, then you are a part of the problem.

I join you today, Mr. Chairman, as a sponsor of the High Skills, Competitive Workforce Act because I intend to be a part of the solution.

The CHAIRMAN. Thank you very much, Congressman. We heard very eloquently from Senator Hatfield the story about the two-tiered educational system he remembers from when he was beginning his high school education and what was called "the shop", and you have reminded us of some of the enlightened and innovative programs that are taking place in your own State.

Just a few months ago, I went up to a training program that is sponsored by Toyota in Framingham, MA, which is tied into the community college there. The program works with kids who are also in the community college about 12 weeks of the year. Toyota provides the program with the top-of-the-line car it produces each year, a brand new car, so that what the students are learning on and working on is the state of the art in terms of Toyota. Toyota provides that for the training program, and the program is very much in demand.

When the kids get out of there, they start out at salaries of $26,000–$32,000 a year, and in another year and a half of training they can become a master mechanic and get into jobs that pay as much as $55,000–$65,000 a year, or even go out on their own and start their own businesses.

I spoke with the Toyota people, and they say, "This is good for us, because our investment in the training program is now beginning to reflect itself in the sales of Toyota because we are improving our service to the consumers." And the people who work in the training program, most of the instructors, could go out themselves and make a great deal more money, but they are interested in kids and trying to get them involved in training that provides them with skills that will enable them to earn good wages.

What was also touched on in the earlier part of the testimony is the continuing education element which is such an important part of the legislation we are introducing today. Last week I was at a training center in Needham, MA that is providing additional training for people who have lost their jobs—of which there are thousands in my own State now, white collar workers, most of whom have worked for 25 or 30 years and whose average age is about 47—and trying to move them into new jobs in other fields.

When workers lose their jobs at this time in their careers, when they have children, it can have a devastating impact on their families. In many instances, there is tremendous pressure on older workers—to get rid of them because of the cost of their benefits package—and replace them with part-time, younger workers. So when we talk about the skills issue, we are talking about a very, very dramatic human issue as well.

We welcome Senator Jeffords.

OPENING STATEMENT OF SENATOR JEFFORDS

Senator JEFFORDS. Mr. Chairman, I apologize. I can just be here for a few minutes. I have got to leave, and then I will be back.

I just wanted to thank my good friend, Congressman Regula, for the work he has done and also Bill Brock, whom I have had communication with.

I am going to be gone for about 20 minutes, and then I'll be back and will say a few more words.

The CHAIRMAN. We are going to have, I believe, two votes starting at 11 a.m.

We want to thank you very much, Congressman.

Mr. REGULA. Senator, one thing you touched on is not something you can measure, but it is a key element, and that is self-esteem. A program like this can do so much for individuals' self-esteem and their feeling of self-worth, and that has great ramifications in family life. We have seen when, for example, you have high rates of unemployment, you have high rates of child abuse, you have all kinds of social ills. It is something we cannot measure, but this will be vitally important, I think, in addressing those kinds of problems in an oblique way.

The CHAIRMAN. You are absolutely right on that.

I thank you very, very much. We will look forward to working with you and Senator Hatfield and our other sponsors, and we appreciate very much your presence here.

The CHAIRMAN. We'll now move to our next panel which consists of Senator Brock, who is the co-chair of the Commission on the Skills of the American Workforce and Ray Marshall, also co-chair of that Commission —both former Secretaries of the Department of Labor. We welcome Ira Magaziner as well, and I'd ask Hillary Clinton if she'd be good enough to join the panel as well.

We are glad to welcome all of you. We'll include all of the statements made earlier in the record and any other material that has been prepared, and Ms. Clinton, any material you'd like to submit will be made a part of the record as well.

Mr. Magaziner.

STATEMENTS OF IRA C. MAGAZINER CHAIR, COMMISSION ON SKILLS OF THE AMERICAN WORKFORCE, AND PRESIDENT, SJS, INC.; WILLIAM E. BROCK, CO-CHAIR COMMISSION ON SKILLS OF THE AMERICAN WORKFORCE, AND FORMER SECRETARY, U.S. DEPARTMENT OF LABOR; RAY MARSHALL, CO-CHAIR, COMMISSION ON SKILLS OF THE AMERICAN WORKFORCE, AND FORMER SECRETARY, U.S. DEPARTMENT OF LABOR; AND HILLARY RODHAM CLINTON, CO-CHAIR FOR IMPLEMENTATION, COMMISSION ON SKILLS OF THE AMERICAN WORK FORCE

Mr. MAGAZINER. Thank you, Mr. Chairman.

I would like to set a context for the bill by talking a little bit about what is happening with the American economy.

Over the past 17 years, the most fundamental and important fact about our economy is that we have improved productivity by only one percent per year in this country, and that compares to a historical rate of over 3 percent a year for the rest of the century.

It also compares to 3.5 percent per year in Europe and 6 percent per year in Japan for the same period.

What we have done over this period of the past 17 years is we have grown our economy not in a healthy way, that is, by improving productivity, but rather, by doing two things. One is we have spent other people's money. We have since 1982 brought into this country close to $1 trillion of foreign money. What I mean by that is if you net out the amount that we loan to foreigners and the amount they loan to us, the amount we invested in their countries, the amount they invested in our country, we have brought in close to $1 trillion net, and we have spent 98 percent of that, and that has been part of the way in which we have grown the economy. It has made up over two-thirds of the cumulative increase in our GNP. The best way you can explain that or describe it is if you think of an average family of four that in 1982, let's say, earned $20,000 a year, spent $20,000 a year, and let's say they inherited a house from their parents—that same family in 1990 spent $30,000 instead of $20,000. Well, that felt pretty good. That was growth. The problem is that even though their spending went up from $20,000 to $30,000, their income went up from only $20,000 to $22,000, and what they did was taken a mortgage on that house they inherited, and then they began to sell off pieces of the house.

Now, if you ask that family how they are doing, and they measure it based upon how much they are spending, the answer is I'm doing fine, I am spending $30,000 instead of $20,000. But if you ask a different—and I would argue more important—question, which is what is that family building for its children, you get a very different answer because what they are building is a big debt, and they are no longer going to have the house to pass on to their children because they are selling it off.

That's what we've done to grow the economy during the 1980's. We have spent other people's money, that is, foreign money to a great extent.

The second thing we have done to grow the economy is we have thrown more people at it. We now have 50 percent of the American population in the work force versus 40 percent in 1973, and yet the unemployment rates are about the same.

Two things have happened. One is the baby boom generation came of work force age so you had a big bulge of people coming into the work force, and second, we have a higher proportion of women working.

But as was pointed out earlier, because we have not improved productivity, the real wage that somebody can get for an hour of work in this country has gone down by over 12 percent, and in fact it stands now where it stood in 1958, the real wage.

So two important facts about the economy—we have not grown productivity, and the way we have grown the economy has been spending other people's money and by throwing more people at the economy, and therefore real wages are down.

One final fact that is very important. If you look back 25 years ago, and you take all the developed countries in the world and you look at the distribution of income, America had the fourth most equal distribution of income among the 22 developed countries. If you look 10 years ago, we were twelfth among the 22 countries. If

you look at the most recent statistics, we have the most unequal distribution of income of any developed country in the world.

What has happened during this period—remember I said real average wage has gone down by over 12 percent. But if you are in the top 30 percent of income earners, your real wage has gone up by 9 percent, and if you are in the bottom 70 percent of income earners, you have gone down by over 20 percent.

Now, those have been the trends of the economy, and as our Commission looked forward to the future, we found that even if it were desirable to continue growing the economy the way we have, it is not going to be possible—and I would argue it is not desirable. But even if it were desirable, it is not going to be possible because the people who have been loaning us all this money from abroad and investing all this money here have other things to do with their money now, and at the very least they are going to charge us more for it. And also the demographics are changing, so that for the first time since post World War II, the number of people coming of retirement age is going to be roughly equal to the number of people coming of work force age. So basically we are not going to be able to throw more people at the economy.

And finally, if we continue the skewing of distribution of income that we have had, it was our commission's view that it is going to be very difficult to preserve the kind of social and political ideals we have had in this country when effectively what you have is a developing country growing up inside a developed country. With one out of every four children being born into poverty in this country today, we are a developing country inside a developed country, and the developing country is growing faster, and that will not allow us to maintain the kinds of democratic ideals we have had.

So in the view of our commission, we have to fundamentally change direction, and there are two things that have to happen to change direction. One is we have to rediscover how to improve productivity at 3 or 4 percent a year instead of one percent a year, and second, we have to make sure that as we improve productivity faster that the benefits spread to everybody and not just to the 30 percent at the top.

One final word about how you improve productivity in the 1990's. We have organized work in this country according to principles that were first developed in the early 1900's by a man named Frederick Winslow Taylor. He is a man who has had a more profound effect on the daily life of the average American than almost anybody else. And what we have done is we have taken work and divided it up into simple tasks, and we have assumed that the front-line workers who were going to do that work were not capable of learning or thinking or understanding. What would happen is that a group of experts would design the work for them, and the front-line worker would repeat the same one- or two-minute task 700 or 800 times a day, and that was the way we organized the work.

That form of work organization, while it could produce productivity in the early part of the century, no longer can do so. Increasingly in the future we are going to have to organize work in what is called high-performance work organizations where we rely much more on groups of front-line workers to be thinking members of the

organization, not just robots who do the same one- or two-minute task 700 or 800 times a day.

And when you start talking about improving productivity in that way, then you have to have highly educated and skilled front-line workers. They must be thinking members of the organization, they must be trained, they must be skilled, and they can no longer be illiterate or people who don't have sufficient education.

That's the challenge we face. There is no way that we are going to survive in this world economy with a high wage if we don't have skilled and productive front-line workers. All of our living standard depends on it.

So the key to productivity, which has bedeviled us for all these years, how do we get productivity up, has to lie in the reorganization of work to make better use of everybody, not just the 10 or 15 percent who are the managers. And making that better use is going to depend upon upgrading their education and skills, and that is the fundamental message of connecting economics to education.

[The prepared statement of Mr. Magaziner follows:]

PREPARED STATEMENT OF MR. MAGAZINER

Mr. Chairman and members of the committee, thank you for inviting the Commission to participate in this hearing and to respond to your request to comment on the Nigh Skills, Competitive Workforce Act of 1991. This bill, based closely on the recommendations made by the Commission on the Skills of the American Workforce in its report, America's Choice: high skills or low wages!, allows the Federal Government to play a catalyzing role to insure that our Nation's businesses will remain competitive in the global marketplace and our Nation's citizens will continue to enjoy a high standard of living.

The Commission applauds the leadership you have shown, Mr. Chairman, in introducing this bold and comprehensive measure. You have taken the important pieces of a broad agenda and identified the Federal role in such a way that it does not create additional administrative burdens or mandates, but rather makes a start on rationalizing a complicated array of services and programs by using Federal resources to develop a national consensus on investing in our human resources.

The Commission on the Skills of the American Workforce is a bipartisan group of leaders from the business, labor, education, government and advocacy communities chaired by former Labor Secretaries William Brock and Ray Marshall. Established by the National Center on Education and the Economy in 1989 to study the current and future skill needs of our nation's non-college workforce, the Commission is concerned about the serious economic problems facing the United States—the continuous drop in productivity, a decrease in real wages and the increasing number of Americans living in poverty.

America's Choice: high skills or low wages! found that America's international competitors are able to sustain high wage jobs and improvements in productivity by reorganizing their workplaces for high performance. By shifting product responsibility to their front-line, highly skilled workforce, our competitors are able to increase productivity, improve quality, and rely on flexibility: all key ingredients to sustain a high wage economy in a global marketplace. From interviews with thousands of workers and managers in the United States and six foreign countries, the Commission found that only 5 percent of American businesses have moved to the type of high performance work organizations employed by their European and Asian competitors.

Faced with the inter-related problems of less productive workplaces and an underprepared workforce, the Commission recommended that America make a major commitment to reorganize its workplaces and invest systematically in human resources to build a high wage, high skill economy. The Commission recommended that the United States develop a comprehensive human investment system including the following ingredients: setting new educational standards for all students to be met by age 16; assuring that virtually all students reach these standards by establishing alternative learning environments for students unable to succeed in regular schools; creating a comprehensive system of technical and professional certifi-

cates and associate's degrees for the majority of American students who do not pursue Baccalaureate degrees; providing incentives to employers to invest in the further education and training of workers and to pursue high productivity forms of work organization; and establishing a system of employment and training boards to organize and oversee the school-to-work transition and training programs.

How did the Commission reach the decision to recommend a major shift in the way American companies organize work and America educates and trains its workforce? We began with our concerns about the economy.

From the 1950's to the 1970's, America's productivity grew at a healthy pace. The Nation was getting richer, and workers lived better on what they earned. Since then, the rate of increase in productivity has dropped dramatically. The distribution of income in the United States has been worsening. Those with college degrees are prospering, but front-line workers have seen the buying power of their paychecks shrink year after year. Since 1969, real average weekly earnings in the United States have fallen by more than 12 percent. And, during the past two decades, our productivity growth has slowed to a crawl. It now takes nearly 3 years to achieve the same productivity improvement we used to achieve in 1 year. If productivity continues to falter and real wages continue to decline, we can expect one of two futures. Either the top 30 percent of our population will grow wealthier while the bottom 70 percent becomes progressively poorer or we will all slide into relative poverty together.

If we are to avert potential catastrophe, we must make drastic improvements in our rate of productivity growth. But we cannot grow simply by putting more people to work, as we have done for 30 years. Fewer people are entering the workforce, and fewer still will enter in the years ahead. We must grow by having every American worker produce more.

Improving productivity in today's global marketplace is a different challenge from the past where workplaces were organized for mass production. Today's global consumer demands quality, variety and alacrity. The Taylor model of work organization, the model followed by most American companies, cannot meet these new consumer demands. Developed during the turn of the century when educated workers were hard to find, the Taylor model of work organization provided an efficient way to organize mass production with a large population of low skilledworkers. By breaking complex jobs down into simple rote tasks to be repeated over and over again by the worker, an entire production line would multiply efficiency throughout the organization. Work was controlled by a centralized management group who interacted with the customers and suppliers, designed products, determined production schedules, balanced the budget and supervised workers on the line.

Through the 1960's, the United States prospered under this system. Taylorism helped make the United States the largest manufacturer with the largest middle class of any country in the world. That system still determines the way we organize our schools, our offices, our banks and our hospitals. And it continues to define the job expectations of our workforce. The Commission believes that America can no longer rely on strong backs and routine tasks to power our companies. The United States, like our competitors overseas, must adopt a new style of work organization that reduces bureaucracy by giving more authority directly to workers for a wider variety of tasks. Only when we move to high performance work organizations will we be able to produce higher quality products, provide customers with greater product variety, introduce new products more frequently and create automated systems which are more complex than thosethat can be operated in low-wage countries.

This might sound fine in theory, but let us give you an example of how U.S. companies can reorganize work for much higher productivity. In a traditional bank, the functions of a teller are usually limited to accepting deposits, cashing checks, and recording loan and bill payments. if a customer has a more complex transaction, seeks financial advice or is interested in bank products, the teller refers the customer to another department, staffed in large part by college-educated customer service representatives.

Contrast this with a more progressive bank which views the individuals who fill these positions as front office professionals rather than as tellers. They handle all the functions of a traditional teller, but they also open new accounts, grant mortgages and loans, process commercial, foreign and consumer transactions, provide investment advice and sell stocks and bonds—functions performed previously by several specialized departments in a traditional bank. By placing more responsibility for work that directly affects the customer firmly in the hands of the line-worker, this bank is able to free its managers to focus on new product development and improvements in banking processes. With this streamlining of work, the bank has

become more efficient, it can sell more and it can expand in the end, while each operation requires fewer people, employment increases and wages rise.

The Commission found that high performance work organizations require line-workers to have much higher skill levels than in traditionally organized work places. Higher skills require large investments in training and increases in worker pay as employees gain credentials and greater responsibilities. But productivity and quality gains more than offset the costs to the company for training and increased wages. Despite these advantages, most American companies still cling to the Taylor model of work organization. In our survey of over 550 U.S. companies, the Commission found that only 5 percent of our Nation's businesses are high performance work organizations.

The Commission concluded that our Nation must employ 21st century forms of work organization to compete in a global marketplace and we must have a workforce that can meet the challenge. This means that our future and current workforce must have the skills that high performance workplaces demand.

No nation has produced a highly qualified technical workforce without first providing its workers with a strong general education. in the United States, students receive a clear message: If you are not college-bound, expectations for achievement are low. The result of low expectations, not surprisingly, finds American students placing near the bottom on international tests compared to their counterparts in other countries. Our front-line workers will not be able to compete in the economic arena because they are unable to compete in the educational arena.

We communicate to millions of students every year, especially to low income and minority students, that we do not believe they have what it takes to learn. And they live up to our expectations, despite evidence that they can meet very high performance standards under the right conditions. In fact, most employers look at the high school diploma as evidence of staying power, not of academic achievement. They realized long ago that students can graduate from high school and still be functionally illiterate. And these are the graduates who our companies depend upon to increase productivity.

Even more troubling is the lack of effort the U.S. places on helping school drop outs, both before they drop out and with efforts to recover them. More than 25 percent of our Nation's students drop out before completing high school. The Commission believes we can no longer afford to drain our economy by sustaining uneducated,unproductive individuals, but instead, we must make an up front investment to help them reach an educational standard that is world class.

Once a student completes high school, we make very little effort to facilitate the school-to-work transition. Here again, schools are focused on assisting the college-bound. The result is that typical high school graduates mill about in the labor market moving from one dead-end job to another until the age of 23 or 24. Then, with little more in the way of skills than they had at age 18, they enter the regular labor market, unable to compete with their German, Danish, Swedish or Swiss counterparts.

Once on the job, front-line workers receive little training. The occasional training for these workers is generally limited to orientation for new hires and motivational training for long-term employees. The one exception is the ongoing training provided to skilled crafts people. Of the $30 billion that American employers spend each year on formal training, only one-third of this amount is spent on our non-college educated workforce, affecting no more than 8 percent of our front-line workers.

Federal and State training programs do exist to train adult workers, but these programs are designed exclusively to aid the disadvantaged and dislocated populations, leaving the U.S. with a bewildering array of services, programs, providers and limited benefits for the larger labor market.

This bleak picture caused the Commission to doubt whether America could ever employ a highly qualified workforce particularly since Germany- Sweden, Denmark and Japan, share an approach to the education and training of their workers and to high productivity work organizations which the United States lacks.

While their economies and cultures differ from the United States, the countries which we compete with economically share the following commitments:

They insist that virtually all of their students reach a high educational standard.

They provide professionalized education to non-college educated workers to prepare them for their trades and to ease their school-to-work transition.

They operate comprehensive labor market systems which combine training, labor market information, job search and income maintenance for the unemployed.

They support company based training through general revenue or payroll tax based financing schemes.

They have a national consensus on the importance of moving to high productivity forms of work organization and building high wage economies.

Each of these nations has maintained higher rates of productivity growth than the United States, and their living standards and real wages have been rising steadily.

The Commission believes that to remain prosperous, the United States must make a choice for high skills, not low wages. To make this choice we must fundamentally change the way work is organized and the way we educate and train our people. Our recommendations, which are the basis for Senate Bill ——, provide a framework for developing a high quality American education and training system closely linked to high performance work organization. The system we propose is uniquely American. it has the potential not simply to put us on an equal footing with our competitors, but also to build the world's premier workforce.

The Commission recommended the following five-point program which the bill reflects in its identification of a federal role:1. A new educational performance standard should be set for all students, to be met by age 16. This standard should be established nationally and be benchmarked to the highest standard in the world.

The Commission envisions a new national performance examination system for all students that would ensure that every student leaves compulsory school with a demonstrated ability to read, write, compute and perform at world-class levels. Students would also have exhibited a capacity to learn, think, work effectively alone and in groups and solve problems. The standard would be the same for all, though some might take longer to achieve it than others. On meeting the standard, students would be awarded a Certificate of initial Mastery entitling them to choose whether they enter the work force, begin a college preparatory program or enter a technical and professional certificate program to prepare them for skilled entry-level work.

The United States is the most over-tested and under-examined nation in the world. Most of the tests that American students take are deliberately decoupled from the school curriculum. Teachers are not supposed to prepare students directly for these tests, and students are not supposed to study for them. As a result of this testing system, American education does not clearly reward academic effort on the part of either teachers or students. A performance based assessment system would fundamentally change this situation. At the heart of such a system would be a series of performance based examinations for which students can explicitly prepare and take over a period of years. While the assessment system would establish objective standards for students and educators it would also motivate students and give employers an objective means to assess the capabilities of job applicants.

To set the assessment standards and certification procedures, the Commission recommends the establishment of an independent national examining organization that broadly represents educators, employers and the public.

This bill to moves in the direction of national standards by authorizing research on national standards and pilot projects to develop multi-state assessment systems.

2. The States should take responsibility for assuring that virtually all students achieve the Certificate of Initial Mastery. Through the new local Employment and Training Boards, States, with Federal assistance, should create and fund alternative learning environments for those who cannot attain the Certificate of Initial Mastery in regular schools.

The Commission recommends creation of Youth Centers which would provide a neighborhood source of alternative education, counseling and job experience for school dropouts. These Youth Centers would be funded by transferring to the Youth Center all the local, State and Federal funds that would otherwise be available to the students had they stayed in high school. Students in these Centers would be expected to reach the same high level of academic mastery that they would have attained had they stayed in school, and to acquire the work skills and job experience that they need to get a good job, if they choose not to go on to college.

The first priority of the Youth Center would be to ensure that all students receive a Certificate of Initial Mastery. Youth Centers would utilize alternative learning techniques that are individualized and provide a family-like atmosphere throughout the year.

School districts would be required to notify the nearest Youth Center about any student who drops out. The school district would make available to the Youth Center an amount equal to the average per-pupil expenditure that the school would have received for that student. Whether established within a school or outside of a school, Youth Centers would create a powerful incentive for schools and governments to develop programs to retain and educate their students properly the first

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time. S. ———— provides Federal incentive grants to local communities to support the establishment of Youth Opportunity Centers.

3. A comprehensive system of technical and professional certificates and associate degrees should be created for the majority of our students and adult workers who do not pursue a baccalaureate degree.

Most students who attain the Certificate of initial Mastery would be expected to enroll in a program leading to a Professional and Technical Certificate. These programs should combine continued education in school or college with a structured program of on-the-job training. A National Board for Professional and Technical Standards should be established to develop a national system of industry based standards and certifications of mastery across a broad range of occupations. The Board would be made up of distinguished representatives of employers, unions, education and advocacy groups, industry and trade based committees appointed by the Board would develop standards for each industry and trade. Each committee would build upon existing certification procedures, and develop a single coherent and internationally competitive set of assessments to guide career progression within each industry or trade.

Each occupational program should combine school and work based learning and balance general education and industry specific requirements. The system should offer mobility, both horizontally among occupations and vertically into options for further training or study. Above all, it should be designed to avoid dead ends. High schools, community colleges, proprietary schools and other educational organizations should compete with one another for the students in these programs.

The High Skills, Competitive Workforce Act of 1991 establishes such a National Board to develop voluntary, industry driven occupational standards.

4. All employers should be given incentives and assistance to invest in the further education and training of their workers and to pursue high productivity forms of work organization.

To make full use of the productive potential of our workforce and to encourage the use of high productivity models of work organization, the Commission recommends that employers be provided with financial incentives to train their workers and with the technical assistance necessary to move toward higher productivity work organizations.

The Commission recommends that all employers would be required to spend a minimum amount of funds annually to send their employees through certified education and training programs. Those that cannot, or will not do so, would be required to contribute one percent of payroll to a general training trust fund to be used by the states to upgrade worker skills. The Commission believes this expenditure should come from employers, not employee, contributions. The contribution would give employers an incentive to reorganize work to take advantage of the higher skill levels for which they are paying.

The Commission also recommends that a comprehensive program of technical assistance be provided to firms, particularly small businesses, to assist them in moving to high performance forms of work organization. Up to 15 percent of the funds in the training trust fund should be set aside for efforts to redesign work.

To focus national attention on the issue of work reorganization, awards programs designed to recognize and promote quality, excellence, productivity and improved workplace environments should be expanded.

The bill authorizes a system of technical assistance to employers to assist them to establish high performance work organizations and to train front-line workers. The bill would require employers to invest at least 1 percent of payroll in worker training or pay into a trust fund to be used for such training.

5. A system of Employment and Training Boards should be established by Federal and State Governments, together with local leadership, to organize and oversee the new school-to-work transition programs and training systems we propose.

The Commission's research showed that, where other countries have comprehensive and coordinated programs for helping future front-line workers acquire the initial skills they need, connecting them to the labor market, and retraining them, the typical State in this country has dozens of unconnected programs that fail to meet the needs of individuals and arealmost impossible for clients to negotiate.

The Commission recommends "that the states create local Boards for each labor market, headed by community leaders, that would insure that the system recommended by the Commission works at the local level, and eventually replace the existing—often competing—bureaucracies. These Boards would oversee the Youth Centers, manage the school-to-work transition process, oversee the process of awarding Technical and Professional Certificates at the local level, manage the system

through which adults could acquire the Certificate of initial Mastery, manage a labor market information system and coordinate existing programs.

The Boards would be composed of company, union and public officials, as well as representatives of community based organizations. in cases where labor, management and the community agree that they have been effective, Private industry Councils should be the building blocks upon which the new Boards should be created. State should also create a parallel structure to support the local boards, coordinate statewide functions and establish State standards for their operation.

The High Skills, Competitive Workforce Act of 1991 begins this difficult transition from a multiplicity of unconnected programs to a comprehensive system. It provides seed money to States to organize statewide, integrated delivery systems for employment and training.

The Commission's recommendations and the Federal legislation provide an alternative for America. We do not pretend that this vision will be easily accepted or quickly implemented. But we also cannot pretend that the status quo is an option. Underlying this proposal is a philosophical change in the way we view human resource policy in America. Traditionally we have operated systems that work on the margins of our labor market. We envision a new, more comprehensive system where skills upgrading for the majority of our workers is a central aim of public policy.

The recommendations in America's Choice have received support from policy makers, business and labor leaders, educators, training professionals and advocacy groups throughout the country. Since the release of the report, Commissioners have attended hundreds of meetings in almost every State in the Nation. They have found that the time could not be riper and the need for reform more critical to undertake implementation of the Commission's proposals.

The National Center on Education and the Economy, the organization that created the Commission, found the need for a national standard of educational excellence so compelling that it has embarked on a project to develop a performance based assessment system that could result in the awarding of a Certificate of Initial Mastery. In partnership with the University of Pittsburgh's Learning Research and Development Center, the National Center has assembled a volunteer group of States and school districts to guide the initial development effort. The 16 States and six school districts that make up the "New Standards Project" represent over 42 percent of our nation's students. Some exams and frameworks in the initial subject areas will be field-tested and ready for use in the 1993-94 school year. Others will follow over the next few years. By the fall of 1997, examination programs should be in place for all major courses of study at the elementary, middle and high school levels. Leaders of the New Standards Project are working closely with the Administration, Congress, the National Education Goals Panel and the National Council on Education Standards and Testing to determine how the project fits in with work on a national examination system.

The Commission is also working with a number of national industry associations to begin building a system of industry standards for non-managerial workers. Companies and labor unions in the telecommunications, electronics, retail and metalworking industries will begin to establish job-related and industry specific skill standards, built around core proficiencies, and to develop certificates to accompany these standards.

At the State level, the Commission has helped to develop legislation based on the recommendations in America's Choice in several States, among them Oregon, Washington and New York. Other States, including Rhode Island, Minnesota and Virginia, have formed commissions or task forces to study the recommendations in America's Choice and develop Implementation strategies for State level action.

America's Choice and this bill call for a fundamental shift in the way that America prepares its young people for their futures and the way that American business and industry structures work and invests in their workers. The Commission asks you to carefully consider the proposal before you keeping in mind that while the mechanisms for achieving our goal are important, the necessity for developing some means of investing in our front-line workers is essential to America's economic health.

Thank you again, Mr. Chairman and members of the committee, for allowing us to comment on this legislation. The Commission recognizes the immense amount of work that went into producing this comprehensive bill. The Commission stands ready to assist you in any way as you move forward with this legislation.

The CHAIRMAN. We have been joined by the Majority Leader of the House of Representatives, who participated in the press conference earlier this morning and then was down at the White House.

If you want to tell us about that meeting, we'd be glad to hear about it. [Laughter.] I know the Majority Leader has some other responsibilities to attend to, so if our panelists would be good enough to permit him to make what comments he'd like, we'd appreciate it.

STATEMENT OF HON. RICHARD A. GEPHARDT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI AND MAJORITY LEADER

Mr. GEPHARDT. Senator, I'd be happy to wait until you are finished with the votes on the Senate floor. I know you have a couple of votes, and I'd be happy to wait until then.

The CHAIRMAN. The votes haven't started yet, so if you'd like to make your comments now, you would have the assurance, of about 8 or 9 minutes, because I would not have to leave here to go to the floor until the second bell.

Mr. GEPHARDT. Why don't you finish with the panel—I don't want to interrupt them—and then I'll go.

The CHAIRMAN. All right. That's very kind.

Secretary Brock.

Mr. BROCK. Let me start, Mr. Chairman, by thanking you and Dick Gephardt and Mark Hatfield and Ralph Regula. I think the bipartisanship on this bill is remarkable, and I appreciate that very much.

I should note that Ray Marshall and I worked under the guidance of Ira Magaziner, who is our chairman, and we appreciate that.

Let me say something at the outset, Mr. Chairman, since you were talking about Toyota up in Massachusetts. I went out to go through the Toyota facility in Georgetown, KY, and it was quite an experience. I have been through automobile plants before, but nothing quite like this. I asked at one point if there had been any worker dissatisfaction in the plant because they seemed to have a very happy work force, and I had the same response, I think, that you got in Massachusetts. That was that the only complaint the workers had was that they weren't getting enough training money. I asked how much money they were spending on training, and they said 10 percent of payroll.

Now, earlier we were talking about one percent. These workers are saying if they don't get more training, they can't move up as fast as they are capable of moving and as fast as they want to—and it is 10 percent. I wish that an awful lot of American-managed firms were thinking as creatively as that.

What they have found in the firms that do this is that that investment is repaid many, many fold, and the high performance work organizations in the United States are all doing that sort of thing, but that is only 5 percent of our firms.

So what are we proposing here today? What's the proposal of the Skills Commission? Simply put, we say that we've got to prepare our young people to enter the work force. We have got to prepare them to understand that there is reason for them to be in school and that that school has something to do with their ability to prosper and be productive as human beings.

We sort of drew back from what I personally think is almost a charade in America called the high school diploma, which measures almost nothing but time in seat. If you ask any business what does the diploma mean to them, it doesn't mean anything other than time in seat.

We asked what is the sort of magic moment. We looked at Germany, Sweden, and other countries. Some start at the age of 12; others, at age 15. In the United States, you can leave school at the age of 16, so we chose that age, and we said we ought to get our kids up to a global performance standard by the age of 16.

Each of those words is important: "global"—it's not something that we think they ought to know—we are not all-wise—but a standard which is benchmarked to what the rest of the world has decided is important, because if we can't match them and improve on that, we're not going to compete. So, a "global" standard, globally derived.

A "performance" standard. I am sick to death of people who talk about the present testing system as if it were a competence system. It is a ridiculously inadequate system. We are the most over-tested and under-examined people in the world. Tests don't tell us anything—or they tell us the wrong thing. A performance standard is something very different. What we thought was maybe a series of exams, running over several years, sort of like Boy Scout merit badges, that would allow people to earn their way up through, a progression, so that it is never a barrier to progress, it is never a talking down to somebody, it is never a putting down of individuals, but it is an opportunity to constantly reward them and recognize their progress as they went, like Eagle Scout badges or something like that.

It is a system that is technically doable. It requires us to change very much the way we measure.

The word "standard" is important. We really have to have, as I said on the global point, a measurement of values in a whole range of different areas that is a standard that we commit to them. We are not asking them anything. We are asking ourselves what are we doing to give them the tools to be productive. It is a standard for us. It is a standard for us to say we commit to you as kids that we're going to get you to this standard.

Just to conclude, I started working on this when I was at the Department of Labor, and we published "Workforce 2000". We came to the conclusion that this country wasn't going to compete unless it changed, and changed radically and fast. We are running out of people. We have exhausted this huge reservoir of new entrants to the work force that we had in the 1970's—women, the baby boom product, new immigrants.

We have taken our work force from 40 percent of the American public working up to 50 percent. Sixty-plus percent of women of child-bearing age in the United States are working now. They now are 47 percent of our work force. We have exhausted that huge pool. They have kept us moving in gross economic terms. They have kept families alive. But we have paid a very substantial price in the process.

We went from "Workforce 2000" through the Skills Commission and through the report that we reached, and then we said maybe

we need to do some things beyond that. Maybe we need to relate school to work in a more tangible fashion. So we are presently embarked on something called the SCANS work, which suggests that we now know what those functional skills are that are required to be employable or productive as a professor or a plumber, it doesn't matter—for everybody.

We now believe they can be taught, and we believe they can be measured, and we believe that that should be incorporated into the core curriculum. And when we get beyond that, we have now a Commission on Work-Based Learning, which will take the final product of all of this and try to pull these threads into a complete whole.

The essence of this work that has been going on for a number of years now, literally, dating from 1983 with "A Nation at Risk", is to create in the United States a continuum of education that starts with us thinking about the fact that 15 percent of children in the United States enter school intellectually disadvantaged. That tells us that we ought to think about some things like prenatal nutrition, postnatal nutrition, and then carry that process all the way through grammar school, high school, all the way up to postgraduate, and then to lifetime learning on the job by training programs such as incorporated in this particular legislation.

What we are saying in effect is that the global environment that we inhabit is an environment in which the competition is going to be based on human skills, on our human capital, and unless the United States starts paying attention to its human capital, we simply can't compete.

To repeat what Ira said, we have been making a choice silently, without knowing it, of holding down wages and therefore holding down skills in order to compete. There is only so far we can go with that. We have reached the limit, and we have no choice other than to reverse our course, to put our money and our energy and our time and our emotion behind education and training in the finest way, to raise our skills so that we can get our salaries and the quality of life in this country up to the standard that we believe is important for all of us.

Thank you.

The CHAIRMAN. Thank you very much.

Secretary Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman.

Let me start by thanking you for the invitation to appear here with my colleagues on the commission and also to thank you for your leadership in bringing this important legislation to this point.

What I would like to do is add a little to the comments about the economy and then to discuss primarily the issue of the school-to-work transition which I think is one of our weakest links in the United States relative to every other country.

I think that we need to have a certain sense of urgency about the economy and the facts that Ira has laid out here, partly because I think one of the things that deserves underscoring is that with declining productivity growth that in the future, our national and family incomes will decline along with real wages because with declining real wages the only way we have been able to sustain family incomes and national incomes is more people working and

longer hours. And that is self-limiting, as we will not be able to continue to sustain incomes in the future with declining productivity growth by supplying more labor.

As Ira points out, the work force growth has declined. Put another way, there aren't many families with another wife to put into the work force, and therefore unless we turn the productivity growth around, then the family incomes will decline along with real wages, and I think that is very serious. They will decline and become more unequal. And if you project that trend, it is pretty serious to this country because it means that either the rich will continue to get richer and the poor poorer, or we will all get poor together because we cannot sustain such an unequal distribution of income long into the future and maintain democratic institutions.

The reason, it seems to me, that we need to have a certain sense of urgency also relates to demographics. The first baby boomer gets to be 55 in the year 2000, and there were 77 million of them. They start trying to retire in the year 2010. Now, thing of the implications of a slow growth economy between now and then, say, for the next 20 years if we don't improve things, and we start to have a very large part of our work force trying to retire.

The good news, of course, is that the baby boomers were the best-educated, most privileged generation in our history, and therefore if we are able to create high-performance work organizations and turn the performance of the economy around, then we can do a lot to see to it that we don't get the conflicts that we are likely to get after the year 2010, when you can get conflicts between people trying to retire and people who have to pay for their retirement, added to all of our other conflicts. So I think that is a very serious problem and therefore ought to create a certain sense of urgency.

It is also very clear that we are not likely to turn this around unless we pay some attention to those serious deficiencies in our learning systems. I like to refer to it as learning systems rather than education and training systems. One of the most important learning systems is the family, and our families are in trouble in this country because of what is happening to the economy as well as what is happening to family structures.

We have a larger proportion of our children in poverty than any major industrial country. That will create a serious competitiveness problem for us down the road because the family is the most basic learning system, and therefore we have to be concerned about that.

Schools, as Bill Brock has emphasized, need to be restructured, and we need to have some standards for completion of secondary schools. Standards do three things that are very important. One, they create motives for young people to take the hard courses and to work hard. Under present arrangements, if you are not headed for college there is no reason to take the hard courses or to work hard because the grades don't mean anything and what you learn doesn't mean anything.

So establishing standards will do that. It also gives you some way to judge the system and to see what is happening to it, and it gives employers some knowledge about the products of the system, that is, what do people know and what can they do.

But fixing the schools won't fix the problem because most of our workers are already in the work force and because we have a very high proportion of our young people who don't finish school and a large proportion of those who do don't go on to college, so you only get 25–30 percent of the work force pursuing a baccalaureate degree. The recommendations in our report as well as in this legislation address the issue of not only establishing the standards for school completion, but what do you do about the dropouts, who will be a very large part of our work force.

Under present arrangements, it is not well-understood, but the dropouts subsidize people who stay in school because most schools get their money on the basis of average daily attendance for some time in the fall, and therefore if young people drop out, the schools get to keep that money. Now, that creates no incentive for the schools to prevent dropouts. In fact, it is a perverse incentive; it creates an incentive to encourage dropouts. It also creates an incentive to encourage dropouts with the people who are hardest to serve, that is, people who need to be in school most.

So one of our main recommendations to address that problem is that we recommend that the States take responsibility for assuring that virtually all students achieve their certificate of initial mastery, which would signify that you have met the standards for leaving secondary school, and that this be done through new local employment and training boards proposed by this legislation and also recommended by our board, and that this be done by the States with Federal assistance and that they create and fund alternative learning environments for those who cannot attain the certificate of initial mastery in the regular schools. In other words, we have recommended creation of Youth Centers, and that these Youth Centers be alternatives to the schools, and that the young person who is performing satisfactorily in school or for whatever reason be allowed to leave the school and take their money with them to the Youth Center. We believe that that would create an incentive for the schools, because right now they have disincentives, to try to do some things to retain people. But it also is the case that school is not for everybody. We learned that in the Job Corps. In fact, in my mind the model of the Youth Center is the Job Corps, where you create an alternative learning system that is very efficient and to which some young people adapt much faster than others. It would have the primary responsibility of seeing to it that these young people who had not done well in school and either had dropped out or elected to go to the Youth Center met the certificate of initial mastery through some alternative means. I think that is an extremely important component. I think that would create an institution that would do a lot to deal with the problem of dropouts in our system.

The second recommendation related to this question of school-to-work is that we create a comprehensive system of technical and professional certificates and associate degrees for the majority of our students and adult workers who do not pursue the baccalaureate degree. The model that I have in my mind for that is the apprenticeship system. That is where people work and go to school at the same time, or take so-called related instruction. It is a very good system but there are not very many people in it, and what we

need to do is to expand that concept and to create standards for the professional skills and to create a board, which we recommend and which the legislation contemplates, to come up with these standards, that is, to develop standards for each occupation and area. That is also based on the apprenticeship concept, which is a mainly private system, I might add, and the main role of the Federal Government is to first establish minimum standards and then put its stamp of approval by issuing certificates for people who successfully complete the apprenticeship training program.

Then a third recommendation that this legislation contemplates which I think is extremely important is to create a system of employment and training boards by the Federal and State governments, together with local leadership, to organize and oversee the new school-to-work transition program and training system that we propose.

Some would argue that this is creating a new bureaucracy. In my mind, that's not what it's about. What it is doing is simplifying the existing system. We already have a Federal employment and training system out there, but it is very complex; it is very hard to conceive of it as a system. And what this proposal would do would be to systematize.

I think the two most important words I learned about management in Government are to simplifying and concentrate, and that's exactly what this would do. It would simplify the structure and concentrate the responsibilities in a primarily local employment and training board, which would be part of a system of national, State and regional boards.

Mr. Chairman, I believe that these recommendations and this legislation would do a great deal to overcome the most important weakness in our learning system, that is, the school-to-work transition. I believe it is a uniquely American approach to the thing. It is a combination of Federal, State, public and private responsibility.

Thank you.

The CHAIRMAN. Thank you very much.

Before we hear from Hillary Clinton, I'd like to ask our colleague, Congressman Gephardt, if he would like to chair the hearing.

Mr. GEPHARDT. I don't know if that's legal, but I'd be happy to do it.

The CHAIRMAN. I don't hear any objection to it. I think it would be fine. It would be very helpful. We are working closely together and will be working closely with the House on this legislation.

I will be gone for just a bit. We have three votes on the Senate floor . So in whatever time you have available maybe you could hear from Hillary and then make whatever comments you have, and then question the panel, and by then I should be back. If there is a time slot before I get back, you could recess, and then I may have just a few final questions or will submit them. Good.

Mr. GEPHARDT. [Presiding.] I don't know if this is legal or good or anything else, but we'll do it. I don't think I can vote here, but maybe I will try to influence some opinions.

Mr. BROCK. None of us will tell.

Mr. GEPHARDT. Maybe for the purpose of this bill only. [Laughter.]

Hillary, we are happy to have you here as well with the commission. I know you have worked and labored hard with all the other members, and perhaps today is a beginning of bringing to fruition these ideas. We'd be very happy to hear your testimony at this point.

Ms. CLINTON. Well, Congressman, I think we have just seen an example of high-performance work organization where we were not bound by the categories and in fact broke through them in order to continue the work of this hearing, and I applaud Senator Kennedy and yourself for being flexible and high-performance-oriented so that we could go forward. And I mean it very seriously. It is a very signal representation of what we are asking for in this bill and in this commission report because the only way this legislation will be successful, the only way the other efforts that we are engaged in on behalf of the commission's agenda will be successful, is for people to start thinking differently about the tasks that lie before us.

We have been gratified by the support that this legislation has already received from governors and leaders of both business and labor as well as other educators and people throughout the country because standing behind those endorsements, we hope, is a commitment to start doing away with some of the sacred cows that prevent us as a society from dealing with our ingrained economic problems that have already been so ably described.

I would just add a few additional points. The first is that there is much concern about the educational performance of our youngsters, and with the latest report yesterday a continued emphasis on how we are not progressing the way we need to if we are to be competitive.

One of the reasons that we have not made the progress we need to is because we have not married our economic and educational agendas. Many people in Government and business have been more than happy to point fingers at our schools and say that they are not performing ably, without recognizing that business has a role to play in setting standards for itself and in sending signals to youngsters in schools and providing incentives to them to do better. That does not exist now.

It is rare that an employer in this country asks for a high school diploma, for a front line worker, for a noncollege entrance job. It is even rarer that if they ask for a diploma, they care about what is on the diploma in terms of the kinds of courses that are taken.

One of the differences between our society and that of many of our competitors in Europe and Asia is that we don't send a signal from our job market to our students in our schools that what you take and how well you do is important to us when you walk out of that door.

It is related to the rather unusual American position of decoupling effort from performance. In many of the international studies that have been done, asking parents in other cultures what do you think is the primary criterion for your child's academic success, parents in Europe and Asia say hard work, effort, performance. Parents in the United States say natural ability, aptitude.

There is a wonderful book out now called You Gotta Have Wa, which talks about baseball in Japan. The American baseball players can't understand why the Japanese baseball players practice 10

hours a day. Well, that is another reflection of our differences and how we have to in this country reconnect academic effort and learning with outcomes that are easily understood by our children and their parents. We cannot expect to change our educational system the way it needs to be changed if our economic system stands on the sidelines and lectures and hectors, but doesn't provide incentives for those kinds of investments in effort that we need from our people.

A second point is that if we do educate our children to a higher level of performance, we cannot expect them to function in the Tayloristic production model that Ira Magaziner described. This legislation and the "America's Choice" agenda calls for a fundamental change in the way business management treats workers. It calls for more respect for them as contributors to the overall enterprise. It requires that business managers begin to involve their workers in decisionmaking, which is something that has been advanced and implemented in other countries, building off many of the models that Demming and others put forth in this country but which we still have failed to embrace fully.

So when we turn to our schools and ask that they bring all children to a high level of functioning, we can't on the other hand then have the economic enterprises waiting for them in the same old organizational mode that is no longer adequate. They have to change in order for there to be this kind of push-pull relationship between business and education if we are going to be truly able to educate our children and then find them productive places in these new kinds of high-performance work organizations.

And finally I think it is very important to use this piece of legislation as a kind of bully pulpit, to be able to go out and hold hearings around the country, to visit high-performance work sites, to help the press and others understand what we are talking about because, frankly, a lot of these concepts are still somewhat abstract to the average American and to even people who have worried about the education and economy.

The first question I was asked after the press conference was by a journalist, who said: "I can't imagine my boss investing money in training us." And I could have said something tacky, but I didn't. What I said instead was, "Yes, but if your boss did a realistic assessment of the costs that are now being paid for turnover, quality problems, shutdowns and the like, your boss would understand that what we are asking for is a front-end investment that will gradually eliminate those back-end costs." And that is the kind of argument that we have to take to the American business and labor communities, the education communities, and all of us if we are going to make this legislation not just pass into the law books, but really be part of the change in mindsets that is going to be necessary for us to respond to the challenge posed by "America's Choice".

Thank you.

Mr. GEPHARDT. Thank you very much, and I thank all the members of the panel.

I'd like to start by going at the last point that Hillary made, because I think it is a very important one. A lot of people that I have talked to about this legislation, especially in the labor movement,

have said that's great, we need training, training is always good—but where are the jobs that will require this kind of training. It gets to this "chicken and egg" problem that you present.

And I guess I want to ask what is it in this legislation that you have helped suggest that will convince our business leaders and managers that the Tayloristic work model is one that is no longer appropriate in all cases here in the United States and that not only a commitment to training but a commitment to changing the way we work and the way we think about work and the way we organize the workplace is going to be essential to bring about this overall revolution that you are really talking about.

What in the bill tries to get business people to think anew about how we work?

Mr. MAGAZINER. I think there are a couple of things. One is, of course, the requirement to spend at least one percent of payroll on training. If you have such a requirement, you then begin to think about what you are going to do with the training and with the skilled workers that you will get from the training and how to recoup that investment. So it provides kind of an incentive to think in that direction as opposed to a how can I get a penny off the wage rate sort of direction.

Another piece I think has to do with the standard-setting for the professional and technical programs because a lot of companies or CEOs that I am familiar with tend to read business publications, talk to their friends on boards of directors and so on, and there tends to be a climate of opinion that forms about what is the right thing to do. And if you have a number of leading businesses beginning to work with community colleges and vocational schools on the professional certifications, and if that becomes something which then industry associations pick up and are sponsoring, and it is being talked about at their industry association meetings and so on, it makes it easier for individual companies, particularly smaller companies, to know what to do, to think about how to utilize that for their own existing workers.

So I think by putting those two structures in place, we will be encouraging the move to new work organizations, and that in itself, the move to new work organizations, will create jobs and preserve employment because it will show companies how they can take the high productivity path toward keeping jobs here rather than moving them offshore or some other such.

Mr. GEPHARDT. Bill Brock, when I talk to some of my friends in the business community about this legislation, they have not had a universally positive reaction to the one percent of payroll training requirement. I might ask how the commission came to that conclusion, what other alternatives did you look at, and perhaps you could tell us why you came down on the one percent and how you think the business community in America will ultimately look at this suggestion.

Mr. BROCK. Well, how we came to it was when we looked at the six other countries, and we came to the conclusion that we had, as I think we said, the worst school-to-work transition program of any industrial country in the world; that every other country we looked at insisted that their students reached a higher student, and that we do not, and they provided professionalized education to noncol-

lege-bound workers, and we do not—a number of things like that. And then we began to ask what are the incentives in their system that lead them to take the path that they have taken. And in most cases, virtually all, there was a requirement for training of the work force. I think the highest was about 3.5 percent, if I remember, in Germany. It went down as low as 1 percent in Singapore, I think. But all of them had come to the conclusion that as a mandate of the Nation and as a commitment to the well-being of the Nation and its ability to compete in a global economy, they simply had to require constant upgrading of skill. The debate was never over whether to do it, but over how much.

We started off talking, well, if somebody else is doing 3.5 percent, maybe we ought to do 5, and then we started talking about tax pledges and all the rhetoric and hyperbole on that subject on both sides of the aisle in this Congress and elsewhere in this town, and we came to the conclusion that politically, probably one percent was about all we could ask on the front end, but I think we really and truly, almost without exception, viewed that as a de minimis approach.

It was an incentive, it was a beginning point, but I think I said earlier that I felt then, I feel now, and I think my view is shared by an awful lot of others, that one percent is inadequate to maintain and improve the skill base of this country—that is, 1 percent of payroll; we're not talking about 1 percent of sales, we're talking about 1 percent just of payroll.

When you look at the fact that General Motors and a number of other major firms in the United States have signed contracts with their unions to provide for this, and they have found out it is a good investment, not a bad one. It is not a cost; it is an investment. We have to do this.

Now, let me emphasize one other thing, Congressman, and that is that I really don't view this as a tax. That's an honest statement. I really and truly do not, because I think any business ought to be spending at least 1 percent of payroll on training. Only those that refuse to do that would be required to contribute to this community fund for training—because somebody has to train those workers, and if the firm refuses to do it—and the firm is the best place to do it, by the way, they really are—but if they refuse to do it, or can't for whatever reason, then a one percent tax on payroll in order to allow the community to engage in that responsibility is a very minimal thing to ask. And my guess is that the businesses that are doing it are going to find no fault with it. The businesses that are not, that frankly probably privately know they should, probably will come around to it. Those that don't want to do it and don't see any reason for it are probably the ones that are spending all their time trying to hold down wages and all the other areas, and they are going to say, "We don't like that." Well, they don't like anything.

I don't know how to summarize it other than to say that this country has got to make a decision, and this is one of the fundamental parts of that decision—do we commit to upgrading our skills or not, or do we continue to hold the pattern of the last 20 years, of sitting on wages and considering labor a discretionary cost.

Mr. GEPHARDT. I certainly agree with that. I think we are at a crossroads, and we do have to make that decision. I would suppose every American would agree that we want to be a high-wage, high-skills society. That would be an easy agreement to get. But the harder question, the more important question, is are we serious about that; do we mean it; do we have intent. And what I hope these hearings—and I hope they are around the country—and eventual mark-ups will give us is a real energetic debate about what it will take to be serious about actually achieving these goals. If it is not one percent, then what is it? What other idea is there? Is there a better way?

But I think if we just State platitudes and lay out ideas and don't put serious mechanisms behind them to actually make it happen, then I think we won't reach the goal, and we'll just do a lot of talking and not serious acting and moving toward the goal.

Ira, I would like to ask if you are aware, as I'm sure you are, of firms in America today that are already adopting the model we are seeking here of high performance, high productivity, high amount of training and high wages in the new kind of workplace.

Mr. MAGAZINER. Yes, there are a number of companies who have been moving in this direction. They tend initially to be companies that in a sense were forced by international competition and the requirements for international levels of quality to do so. But we found in our interviews a number of companies around the country—somebody mentioned Mr. Featherstone is here, and his company is certainly one which is moving in that direction, and I should say it is a relatively small company. You don't have to be a General Motors in order to do this type of thing.

So yes, we do have American examples of companies which are moving this way and achieving 4, 5, 6, 7 percent productivity improvement per year by doing so and achieving extremely high levels of quality by doing so. They have had the guts and the courage to make the investment, and we just need to spread to a broader base the number of companies who are doing that.

Mr. GEPHARDT. Ralph.

Mr. REGULA. If I might follow up on what Senator Brock said and also your statement, it is my understanding that at the auto companies, at least General Motors, there is a contractual obligation to spend a certain amount of money on skill upgrades. Is that correct?

Mr. BROCK. Absolutely, yes.

Mr. REGULA. So that would indicate that the unions thought this was a valued part of their contract in terms of skill upgrades to the point that they insisted. I'd like it if you could amplify a little bit on that.

Mr. BROCK. I know Ray has had the same kind of experiences I had. I think before you came in, Senator Kennedy was talking about a facility up in Massachusetts where they were doing this, and they had an incredibly fine training program that not only trained, but it motivated, because people get so excited when they get training that they want to get more training. And I mentioned my own experience of going out to Georgetown, KY to see the automobile facility run by Toyota there, and I asked the workers, and they were really feeling pretty good about themselves and very

proud of what they were doing, as they were doing down at Nissan; you get the same response down at Smyrna, TN with Nissan or Saturn's facility down in Tennessee.

You run into the same kind of attitudes. There is an excitement on the part of these workers. And they said, "The only complaint we've got is that we aren't getting enough training." And I asked the Toyota management, "How much money are you spending on training?" and they said 10 percent—not 1 percent, but 10 percent—of payroll. And the workers are saying, "We want more." There is a hunger out there. People really respond to this. The point is that the more you do, the more they want, and the more productive they become, and all of a sudden the investment begins to accumulate. It is fabulous.

Mr. MARSHALL. If I could follow up on that, I think your comment about the unions and unions' attitudes is one that we ought to explore in a little more depth because unions have long understood that the only way they are going to be able to have high wages in a competitive world is to improve productivity. That is the reason, for example, that some of the unions in the most competitive industries like the garment industry, the Amalgamated Clothing and Textile Workers-International Ladies Garment Workers Union, have always given very high priority to improving productivity of the employees that they had organized because they knew that that was the only way they could have a higher wage.

There was a time when the industrial engineer was one of the main staff groups of both of those unions. And you've got the building trades. One of the reasons that they give such emphasis to the apprenticeship system is because they know that the only way they are going to be able to have higher wages than their nonunion competition is to have well-trained, well-educated people. So the joint apprenticeship committees in the building trades are a model of the way we could have a very good education system.

Now, the reason that the unions' involvement is so important is the very thing we are talking about here, and that is that most employers are out to maximize profits, not train workers. Now, I think you can show them that in the long run—and economists have; in fact, one of our colleagues got the Nobel Prize for demonstrating that the unions to human capital are higher than the returns to physical capital—and we've got a lot of evidence to support that proposition. But because of the way our system works, because there are no national policies to cause employers to pursue a high-wage, high-productivity option—and that's what many employers tell us, not only do we not have the workers, but most of the incentives in national policy are for us to pursue a short-run, low wage, competitive market-oriented approach to our business.

But union is not interested in that. They are not interested in short run profit maximizing; they are interested in having well-rounded workers. The main reason for that is that if you are well-trained, you are flexible, and you don't get unemployed as fast; and, as the unions put it, you can police a larger proportion of the work. I have done a lot of work on apprenticeship and demonstrated that apprenticeship people have less unemployment and higher productivity than people who don't serve their apprenticeship.

Now, the way to get that is well-rounded, so the balance, that is, I think the value of the apprenticeship example is that you bring the employers—the individual contractor is not interested in doing a lot of training because you break the benefit-cost cycle; they do the training, and somebody else gets the benefit—but as a group, they are willing to do the training because they see that they will all benefit from that process. And then you bring in the interest in having well-trained workers.

The apprenticeship system in the building trades also indicates the free rider problem. There are not many nonunion contractors in America, major contractors, who could operate without workers who had been trained through the joint apprenticeship committees, trained through the union process. That's the reason I think in this legislation it is very wise to say we don't want to do anything to dilute those kinds of apprenticeship training programs that already exist out there. And your point, I think, about the community colleges is absolutely on mark, and that is that they are a very good institution in this country, and we ought to build to them rather than threaten then.

Mr. REGULA. I was wondering how far you explored the role of our network of vocational, technical, and community college programs. It seems to me that has to be an enormous resource that could be utilized in avoiding duplication and bureaucracy or overhead in getting the job done on the ground.

Mr. MAGAZINER. Absolutely. We have the potential for a very good delivery system already in place through the vocational schools and community colleges. Two things that are lacking—and the community college community and vocational community have been very supportive of this report around the country—but what they lack is industry leadership and a clear set of standards in terms of what they should be doing.

They link up with industry on advisory panels and so on, but to have a set of national industry-defined standards as this bill calls for, which can then say to them, okay, I can become an American Electronics Association certified deliverer of an associate in electronics, and I can have the local industry involved with the electronics industry working with me, that linkup is what they ask for and what this bill will help provide to help them do their job much better.

So you are absolutely right. We have those mechanisms in place. We are not utilizing them to the fullest. And by linking up industry through a system of standards with them, we think we'll be able to do that.

Mr. MARSHALL. If I might add a point to that, the other thing that we don't have that this legislation contemplates and we recommend is an infrastructure out there to provide oversight and coordination for all the employment and training systems that we do have. That's the reason that the employment and training boards, I think, can do a lot to simplify and to provide that kind of infrastructure which is missing. It would create a national system, which we don't have. It is mainly a local process, but there is a national responsibility, and I think to have that structure would be very important in strengthening the ability of the providers that are already out there to do their work.

Mr. REGULA. Where does JTPA fit into this? Have you explored that?

Mr. BROCK. Yes. We are doing so many things like JTPA and similar programs—even Job Corps, that Ray talked about earlier. What we have not done is to try to fit all these things into some sort of a coherent whole. What we do now is we deal with people who are disadvantaged, we deal with people who are unemployed. We don't prevent the problem; we try to go in after the fact. It's like somebody who says the only medical practice we need to do is surgery. That's crazy. I hope nobody would suggest go to nothing but surgery in the United States. We like to solve problems before they get there.

One of the things that really is astonishing about this country of ours is that we're just a bunch of disconnects. We've got networks in the business world that are just weaving the world economy together faster than you can imagine, and yet we never talk to each other in these areas. Business doesn't talk to education. We're all very good at saying to our teachers, "Do better." What does "better" mean? We are not very specific.

What we are saying here is if we can create national standards for business and labor to work on in a given area—and we've got some of these areas; there are certain areas where we've got very coherent standards. The electrical standards in the United States are world class—and they had better be.

A great story. Back when we came up with electricity and Edison came up with the light bulb, and we were electrifying the Northeast and Senator Kennedy's territory, we put all the textile mills up there, and a third of them burned down in the first 10 years. We didn't have any apprenticeship program, and we didn't train anybody. Everybody was just putting up wiring hand over fist. Well, we found out that didn't work real well; we couldn't pay the fire insurance.

But why don't we do that in a whole lot of areas, and why don't we start giving an honest answer to our teachers who say, "Tell us what you want." Do that with standards at the base level. Do it by telling them up to the age of 16 what functional skills we want produced out of our schools. Beyond that, tell your community colleges and your technical institutes, "These are the standards of performance that we want. These are the criteria by which we measure," and then create, as we suggest here, local labor-management boards to oversee the development of these institutions, and try to keep all of this folded into some coherent whole, so that when kids look at it they've got a lot of choices, but the choices fit, and there is not a disconnect. It makes sense.

Ms. CLINTON. I would add, too, Congressman, that part of the kind of mindset we have to overcome is that training in this country is now viewed as only for the disadvantaged. We have JTPA, but you have to be so marginalized in order to get in that you are not part of the mainstream to begin with. We have Job Corps, and we offer it to very few of the youngsters who can benefit from it, but those youngsters have to be extraordinarily disadvantaged. So that somehow inadvertently, we have created this idea that training as part of a lifelong learning system doesn't need to be part of

our mainstream educational economic systems. It has been marginalized.

So that in addition to following the examples of what we think are good, coherent systems that bring together and integrate all of these services, I would also point to the experience of the American military with the all-volunteer military because they take our high school graduates, but they then give those high school graduates world class state-of-the-art training. They do not expect that a youngster who graduates from Little Rock High School can walk right in and figure out how to work a Patriot Missile. Yet in the civilian side of our economy, we think that, gosh, if the schools haven't done everything that needs to be done to make these kids work-ready, then the schools are at fault.

If you look at the amount of money—and I don't know the percentage of payroll; we calculated it one time—that the military is spending on training, it is far, far in excess of anything we are talking about here. The net result we all got to watch on television last spring, and it certainly made a lot of people feel very grateful that our youngsters were so well-trained.

Why do we expect that our civilian side is not going to need the same kind of training to bring those same kinds of youngsters with the same kinds of backgrounds and educational experiences up to the world class competitive level that is now demanded economically, not just militarily?

So I think the question about JTPA leads to a much broader inquiry about what have we done about training, and when we look at where we are really training adequately in this society on the military side, why can't we make something comparable required on the civilian side domestically with these same youngsters who are in the mainstream as well as being disadvantaged.

Mr. GEPHARDT. On Saturday I was in an electronics plant in Mexico where young women are working for 63 cents an hour in what appeared to me to be a very clean, efficient, productive plant. It obviously was the Taylor production model, but it was producing a lot of impressive high-tech products that were coming out the back end on their way to America and probably other places in the world.

A lot of people will criticize this legislation, saying that even though we might be able to create some high productivity, high skill, high wage workplaces, that in today's world the prime competition we continue to face is the kind of plant that I saw in Mexico.

How do you respond to that kind of thought? Are we trying to have an America where those plants are all in China and Mexico, and none are left in the United States, or how does this work?

Mr. MAGAZINER. I've got two answers to that. One is that if you look at a number of our major trading partners who have higher wages than we do, but also positive trade balances, they manage to accomplish that and employ as many of their people as we do—places like Germany and so on. There are two issues there. One is that that plant you saw in Mexico, if it is like the other mequiladoras, has about a 150 percent turnover rate per year. What that means is that there are certain products and certain production processes which you really can't move down there if you are an American company, and it gets very specific. I can think of doing

some work in the motor industry, the making of electrical motors, and there were certain types of simple motor processes which were moved to Mexico and worked quite well, and then the company tried to move a slightly more complex motor down to be assembled, and the plant fell apart; it couldn't be competitive, they could not get the quality out, because there was too much knowledge that was necessary for the assembly process to work right.

I think the answer to your question is that there are going to be certain production processes that are going to remain in developed countries. What I worry about is that over 50 percent of our trade deficit today is in situations where the country we are losing to is paying at least as high wages as we are, over 50 percent. What we need to do is speed up our product development activities and also make sure we win more of the battles in those pieces that are going to stay in the developed countries. If we set our attention toward those two goals, I think we can accomplish what we need to accomplish.

Mr. BROCK. One of the most interesting statements that was made in our group was by a businessman who said, "I can't afford low wage workers. I can't afford minimum wage workers." The essence of the point was that he couldn't keep competing on a world basis on the basis of wages; he had to compete on the basis of production.

If you look at the pattern of employment in the United States, we will probably be somewhere down around 5-8 percent of the American work force on any assembly line anywhere in this country by the turn of the century, and we'll be producing more product. We are already down below 12 percent now. One out of eight people is on any assembly line anywhere in this country. And the thought that we would compete on the basis of wages, or the thought that we would hold those jobs here that are low wage, low skill jobs is, frankly, an irrational thought insofar as this country is concerned. I don't think we want that.

We used to have a debate when I was growing up in Tennessee when I came out of the Navy, about how did we compete with other States. These rich folks in Arkansas were buying all of our industry, and down in Texas, they were buying industry out of Rust Belt States like Ohio and Pennsylvania and Missouri, and they were providing them with all these benefits. We started looking at the kinds of plants that were moving—frankly, not to your States, but to States south of us—and they were mostly dollar-and-hour wage plants. This was back in the 1950's. They were shirt factories.

And we had a terrible debate, but we won the fight. We said we don't want any shirt factories in Tennessee. We don't want anybody paying a dollar an hour, because that's not the kind of economy we want. We went for a diversified economy, and we went for Japanese investment and a lot of other things, and frankly, we've been a lot better off.

So I just think the country has to make that kind of a decision now. Do we buy competitive viability by inadequate wages, by subsidy, or do we change the way we do business and really eat their lunch, which we are capable of doing competitively?

Mr. MARSHALL. I think your question goes to the heart of the competitiveness problem, and that is that we should not try to compete with those plants in Mexico. Part of our main theme here is that if you look at our traditional Tayloristic organization of work, the way we did it was we had relatively standardized technology, in spite of what that technology in Matamoros—I can tell where you were—it looks like it is leading edge, but it is really standardized. You can do that kind of thing anywhere in the world. You can take that plant and do it anywhere. So our traditional pattern was to have relatively unskilled workers—that was Taylorism—in fact, his view was the more thinking the workers had to do, the worse the system was, and therefore you had to be an appendage to the machine.

Now, obviously, in an internationalized environment, standardized work will not be done in high wage places. Nobody is going to pay an American worker $10 an hour and be competitive if they can get it done for 65 cents in Mexico.

So what do you do? I think that's the basic question. And as Bill pointed out, what many States did was to try to compete with a low wage strategy, so they attracted industry that was on its way to the Third World anyway, which means they were going to lose in doing that kind of work.

Now, what some of our companies have done is equally interesting. In the automobile industry, for example, some of our companies responded to that competition by saying we won't pay a lot of attention to reorganizing the work and training the workers—we'll automate. So they tried to go to the second stage, which was to use relatively unskilled, uneducated workers and then get leading edge technology. Most of the time, that was a disaster. Why? Well, the workers have to make the technology work. Every machine is idiosyncratic, and therefore a small number of our people—and more and more understand it—General Motors learned that lesson by first believing that the workers were the problem and technology was the answer. And it was disaster for them in competitiveness terms—it might pay off down the road, but it certainly didn't pay off immediately. And the Numi plant in Fremont, CA taught them that the workers are not the problem, and technology is not the answer and that what you do if you really want to be world class is you go to the third stage—you combine well-trained, well-educated workers with leading edge technology, which those workers in Matamoros, Mexico could not do because they couldn't organize themselves for high performance. They don't have the education, training and skills to be able to do that. And that's the way it seems to me that we have to think about competition in the country.

Your question earlier about what is in this bill that would cause employers to do that, to go to high performance—one thing we see in other countries is that once you produce a well-trained, well-educated work force, it is hard to get Tayloristic organization. They won't work in it.

Volvo went to an early form of high performance system not because they thought they were going to improve productivity; it was because the education and training system had produced people who wouldn't work in the traditional Tayloristic plant. And then, once they reorganized, they found that you could produce quality

and productivity and flexibility in a high performance system. So it was kind of serendipity for Volvo to come to that view, and I think the same thing will happen in the country.

Now, if we had the proper policies in the country so that we paid attention to what would happen to the workers who lost their jobs when they left the United States and went to Mexico, then we wouldn't get the resistance to change that we're getting. Our problem is that because we have pursued this low wage strategy so long. As Ira, I think, put it, we've built a third world within the United States, and it is going to be harder and harder for us to deal with that until we turn it around and begin to pay attention to upgrading people.

We will have in Southern California, for example, people who are in direct competition with Mexico for a long time because they have built up that industry there, and we've got a lot of unskilled, uneducated people who are unable to participate in that system. But the best time to turn that around is now. The longer we want, the harder it will be to turn it around.

I think if we get two countries, the United States and Mexico, both pursuing low wage strategies, competing with each other, then they will improve more than we will. We will have serious problems with that, I think.

Mr. GEPHARDT. A number of the American workers who were present said you're talking about a free trade treaty with Mexico, and we already have it. It's a question of what we do with what we have, much less what else we do. But they all talked about the training necessity in this situation.

I'd like to ask one other question about this bill that I think will get a lot of attention and criticism and get your response to it. I'm sure some will say that this is simply a call for more government, more bureaucracy, more of the same tired old solutions that sometimes have not worked in other areas, and that it really won't work. They may say what you call for in the private sector may do some good, but these training centers and opportunity centers and getting hold of these dropouts and these apprenticeship programs—we'll just hire a bunch of bureaucrats, and there will be another jobs bill, and it won't do anything. How do you respond to that?

Mr. MARSHALL. I think one of the most important responses to it is that we have not recommended anything in this bill that we can't show you working somewhere. In other words, that's where we got the idea of the Youth Centers; it is happening in the Clearwater school district in California. They are doing it. There is nothing here that we can't show you working somewhere. That's the reason I say it is a uniquely American approach to things. We've got success stories all over the country where people are doing these things.

I think Job Corps is a success story with a different population. I think the Job Corps model ought to be used in a broader perspective.

So I think it will work, and the thing we have is we have a lot of individual success stories; we have no successful systems anywhere, and therefore we have to pay some attention to putting these things together systematically so we can take advantage of these things that we have learned about how to do it. In other words, the

learning technology in the Job Corps—Hillary mentioned the military—that's where they got it. The military helped a lot with that technology. Private industry, Control Data Corporation developed the first part of it. Now it has been perfected so that it could be used as part of the training for youngsters in these Youth Opportunity Centers.

I think the key to a high performance system, whether it is a firm or any other, a major part is the incentive structure that you build in. And in too many of our systems now we have negative and perverse incentive structures. That is, you say you want to improve productivity, and most workers believe that if they improve productivity they lose their jobs. Well, that's hardly a way to get improvement in productivity. And we have a school system that has no incentive to prevent dropouts. The reason this is building on what we know works is if you create incentive for schools to retain dropouts rather than get rid of them, then you are likely to get positive results, I think, given the way other things work. It is not really a new bureaucracy. I think that's the thing. We've got to much fragmented bureaucracy now.

You could look at what we conceive here and see that you would actually greatly simplify many of the things that we already. I had that debate with one of my business friends in Texas. He said, "I am for everything you recommend here except for this new bureaucracy. We don't need to add another one to what we already have." I said you misunderstand what we contemplate. We'd like to take a lot of those things that are already out there and simplify them into a better structure.

Mr. BROCK. Let me approach it from I hope a complementary but slightly different perspective. First of all, there isn't any bureaucracy. The Federal action is to create an educational performance standard that is globally based.

We do have the competence in this town, I hope, to go out and look at the rest of the world and say this is what they are giving their kids. Are we doing it? If not, shouldn't we say this is the minimum that we ought to be doing? We can do that. And from that point forward, what the bill does, and our commission report does, is to say the States—that's where the action is—the States have to take the responsibility for creating these new employment and training boards. The employment and training boards at that level have to oversee the development of these alternative learning centers or youth centers, whatever they are called, for second chance education.

The private sector, the labor and management committees—and I'm not talking just organized labor, but worker-management committees—that develop these standards, those are people in the private sector. Nobody in Washington is competent to make those decisions about what it takes to be a good electrician. For gosh sakes, anybody who suggests that we do it ought to be hung up.

This is not Federal intervention. It is a program to create some incentive for change. And again, the thing that terrifies me about where this training is—we get into these shibboleths—Federal this, Federal that, tax this, tax that. We've got a problem in America. The problem is, to put it in the most radical way that I can, is that we don't have a skills shortage. We are producing exactly what our

businesses want—uneducated kids who will do rote tasks all day long, show up on time and not complain. We've got an educational system that is structured—Taylor couldn't have done it any better if he had done it himself—it is miserably incompetent, not because we've got incompetent teachers, but we've got design flaw in the system. It is a fundamental design flaw.

So when you've got a Tayloristic system that's got a hierarchical skills system where all the money or 60 percent of your education dollars are going to bureaucracy and 40 percent gets to the classroom, we are loading up all the management on top of teachers because we don't trust them to be individuals, we don't trust them to teach, and we don't trust our principals, so we layer rule after rule, regulation after regulation, paper after paper, and we meddle, we intervene, we interfere, and we get what we want. We get what 95 percent of business is asking for. We get a product coming out of our school who stayed in school long enough to get a doggone piece of paper that doesn't mean anything, called a diploma, and they take the diploma and they say, "I've got a diploma. Hire me." And they go through five or six or seven or 8 years of dead-end jobs, one job after another, jumping around. Finally, they might get somewhere where they can settle in, but they are lost, they are gone. And we are surprised that they are now being held down in their wages for 20 and 30 years. We are surprised that in effect their real wages have not gone up but have gone down in the last 20 years on average.

We are surprised that the SAT scores that form the basis of their skill development are down from 20 years. And I don't know why we are surprised.

I do know that what we are trying to do here is to break that cycle and to say look, we've got to do both; we've got to change our education system, we've got to change our training system, and we've got to change the way we organize work. We've got to do all three, because if we keep the present work organization, it is satisfied with the way things are. If we keep our present education system, it is satisfied with the way things are. And our training system only applies to the people who are disadvantaged and unemployed, and that's such a small number that it doesn't matter.

What we are saying is that this is a dumb system, and we've got to break it.

Mr. MARSHALL. And that is complementary. I would make one comment about it, and that is that standards and incentives substitute for rules and bureaucracies.

Mr. MAGAZINER. Exactly, and I think that's the key. What this bill pushes toward and what this whole theory pushes toward is in fact what industry has learned in the total quality movement, which is that the proper role is to set goals and measure outcomes, not try to micro-manage the processes by which things are done. And that is what this whole program aims toward is setting goals, standards and outcomes, not trying to micro-manage what is done, and therefore it is not bureaucratic.

The other thing which has been bothering me since you asked your first question—I know a lot of people in the business community whom I talk to about this. The first kneejerk reaction to this whole tax thing is going to be a negative kneejerk reaction—it has

to be—among the vast majority of them, for the simple reason that as Americans, we don't like to be told we have to do anything. I mean, it is not in our nature, even if it is something we want to do, to respond when somebody tells us we've got to do it.

So I think even if I am a company that understands training support, and I believe in it, and I'm investing 3 percent of my payroll in it, my first kneejerk reaction is to say, "Well, I'll do it, but I don't want to be told I have to do it."

So I think we are going to get that, and we've already gotten it, but a lot of companies move beyond that pretty quickly, and I think we'll find that as this debate goes on, it will mature. And I think as Bill said earlier, a significant portion of the business community will come forward and understand some of these arguments about free riders and so on and say maybe it does make sense to do something that is universal, so that if I'm going to do this I don't get trapped paying for somebody else's training.

So expect that we're going to get some criticism on this, no doubt, but I think we can get past a good part of it.

Mr. Gephardt. I thank you all for your testimony and more importantly for your hard work over a long period of time. It really comes to the fore today, and I hope that our coalition that advocates these approaches will only grow and build in the days ahead.

Senator Kennedy, I appreciate the opportunity to have questioned this panel and to have had this discussion today. I think we were able to bring out some important points.

The CHAIRMAN. I am enormously grateful to the panel. This will be a continuing process as additional points concerning the important issues addressed in the legislation we are introducing today are brought out by our colleagues and questions raised by people around the country. So I commend all of the panelists for their very, very thoughtful, constructive and positive recommendations. We are very much in their debt.

And I thank you, Congressman Gephardt. As I was walking back over here, realizing that you had the gavel, I wondered whether I should call Boris Yeltsin to find out how to get it returned, but that doesn't seem to be necessary. [Laughter.] We want to thank you very much for coming over and helping. This has been an enormously important hearing.

I bring the good wishes of Senator Pell, who very much regretted he couldn't be here, and Senator Bingaman, who is looking forward to reading the hearing record, as well as a number of our colleagues who were necessarily detained but are aware of what is going on here and wanted me to express their best wishes.

Mr. GEPHARDT. Senator, I have written testimony with me today, and I would simply like to ask that it be made a part of the record and commend you for taking on this effort. I look forward to working with you and the other members on both sides of the aisle as we try to make this legislation a reality.

The CHAIRMAN. Thank you. It will be included.

[The prepared statement of Mr. Gephardt follows:]

PREPARED STATEMENT OF REPRESENTATIVE RICHARD A. GEPHARDT

Thank you, Senator Kennedy, both for calling this hearing and for consistently leading this Nation in education, training and so many other areas of great signifi-

cance to our economic future and social well-being. I appreciate the opportunity to discuss the legislation we are introducing today, and the important issue of the competitiveness of our workers in this global economy.

As you well understand, the United States is part of a highly competitive world market that rewards high quality products and services that respond rapidly to a variety of sophisticated and shifting consumer tastes. The key to success in this global economy is the human mind: its ingenuity and ability to innovate.

The High Skills, Competitive Workforce Act of 1991 is designed to foster investment in the minds and the skills of our people in areas that are necessary to a successful world-class economy. The bill begins to implement the major recommendations of the Commission on the Skills of the American Workforce.

This Commission was comprised of an impressive array of leaders from business, labor, education, and government service. I would especially like to highlight the work of the three distinguished chairs of the Commission, Ira Magaziner, former Secretary of Labor Bill Brock, and former Secretary of Labor Ray Marshall, who will testify this morning. Their report addresses the problems facing our economy and the need for the proposals included in our bill.

I will defer to them on the technical points of the report. I do, however, want to draw your attention to the title of the report: America's Choice: High skills or Low wages. I stress this title, because I believe that it says it all. This is America's choice; there are no other alternatives and there is no avoiding the choice. Doing nothing to upgrade the level of skills both needed and provided in our economy will inevitably lead to our becoming a low wage society.

One of the most important lessons to be drawn from the Commission's report is that in the 1990's and beyond, if we are to be a high wage economy, we must be a high skill, high performance economy. Over the past twenty years our productivity growth has slowed to a crawl. The only reason our economy has grown in this period is that we have added many workers to the workforce. Even with this workforce growth, our lowered productivity growth has caused earnings to decline over this period.

Workforce growth will slow dramatically in the 1990's. We will no longer be able to grow simply by adding new workers. In order to avoid further reductions in earnings, we must increase productivity.

And, as a high wage society, we cannot do this simply by investing in better machinery. Today, low wage economies can afford the same machinery and still sell their products more cheaply. So, we must invest in better minds and better skills—and combine these human resources with our high technology resources to create workplaces that emphasize quality, innovation, and speed. Let me say it again: if we are to be a high wage economy, we must be a high skill, high performance economy.

American ingenuity and innovation helped make this country great. For decades our European neighbors considered ingenuity and innovation to be part of the American character. Yet we are now falling behind in the global economic competition.

The reasons for this are many and complex. But chief among them is a widespread failure over the past decade to foster and support the abilities of our people. The signs of this failure are clear: American children do poorly in academic tests, compared to their peers in other nations; the United States has no systematic school-to-work program, despite the facts that at least 20 percent of American youth do not finish high school and of those who do finish, about half do not go on to college; American employers invest far less in worker training than do their competitors in other nations, and have shown less commitment to high performance work organization.

Now, some in this room are economists, and many others enjoy the study of economic analyses. But you and I, Mr. Chairman, and our colleagues sponsoring this bill today, are elected representatives of the people, and we must have more than an academic interest in our economy. The choice between high skills or low wages has a direct impact on the people we represent. It does not take an economist to understand that lowered wages mean a lowered standard of living.

But let us make sure we understand the full implication of a lowered standard of living: not just fewer luxuries, or even less comfort, but diminished opportunities and dying dreams. To take just one example, our working families can barely afford to send their children to college now. If they earn even less, with college tuitions continuing to rise, how will they manage?

Although the popular press might suggest otherwise, the American Dream is not two cars in the garage and a yacht at the dock. For millions of hard-working citizens, the American dream is to live a productive life, to develop to their full potential—and to provide for their children the opportunity to do even better. It is this

dream that hangs in the balance of "America's choice." Nothing can be more important than to protect this dream, to preserve this opportunity.

My constituents understand that this unique feature of American life is in danger of becoming obsolete. At virtually every town meeting in my district, at least one constituent asks me the following question:

Congressman, I earn 10 or 15 or 20 dollars an hour. I want to continue earning this money. I need to continue earning this money: I have children to put through college and aging parents I want to be able to help—as well as trying to provide for my own and my spouse's later years. But how can I compete with workers in Singapore or Mexico, who are willing to work for a dollar an hour?

The only answer is that my constituent will be able to continue earning ten times more than these low wage workers only if he works ten times better and ten times smarter. Now, that worker—all workers—have the right to turn to their government and ask: What are you doing to give us the tools we need to restore our productivity and revive the American dream?

We are obliged to respond with credible answers—answers that do not include a capital gains tax cut, a laissez-faire free trade policy, or squandering investment capital in pursuit of expensive and pointless mergers. But the answers can be found in proposals such as the one we are making this morning. "The High Skills, Competitive Workforce Act of 1991" is the way to demonstrate that we are serious about effecting the transition to a high skill, high performance economy.

The bill is designed to promote a thorough-going, national commitment to high skills and high performance. It envisions a national system of skills training and certification, in academic subjects and a wide range of recognized occupations, enabling our young people either to pursue a college education or to enter a high performance workforce with a high skill job.

The system starts in the schools, where students will demonstrate their solid grounding in the basic skills of reading, writing, calculating, and reasoning, and their mastery of basic material in math, science, history, and language. It creates a solid bridge from school to work, with national certifiable skill standards in a wide range of occupations, and programs to ensure that high school students who choose not to go to college have those skills. It provides continuing support for workers throughout their careers, with coordinated high performance skill training.

The High Skills, Competitive Workforce Act of 1991 provides the starting point for a comprehensive and systematic national commitment to an economy fueled by highly skilled workers, workers who deliver high quality, innovative goods and services that are second to none in the world. I salute you, Senator Kennedy, for holding this hearing today. I hope it will be the first of many in both the Senate and the House. I look forward to working with my colleagues in Congress, and with concerned leaders in business, labor, and education, to send to the President's desk a bill that will help to enable all Americans to be productive, earn a good living, and provide their children with a future full of hope and opportunity.

The CHAIRMAN. We'll include a statement by Senator Hatch in the record as well as additional statements submitted.

[The prepared statement of Senator Hatch and additional statements follow:]

PREPARED STATEMENT OF SENATOR HATCH

Mr. Chairman, American workers have always had to work smarter. From colonial times when we were "land rich and labor poor," we have had to compensate for our small labor force with new technologies and more efficient utilization of economic inputs. today, though the circumstances are different, our task is the same. We must find ways of working smarter; we must ensure that our labor force is prepared to meet the challenges of new technology and of continually changing conditions in the workplace.

I commend my colleague, Senator Kennedy, for his interest in this key policy area. At some point, I hope to be able to join him in sponsoring legislation that will complement our ongoing employment and training efforts.

Today, however, I still have many questions about the legislation he is introducing. How, for example, does the new program interface with existing programs such as JTPA and the Carl Perkins Vocational Education Act if it is not intended to supplant these programs?

Does the new program intend to impose qualification criteria on school systems or employers? If so, how do we reconcile that fact with our long standing policy of local school control or with the right of employers to hire whom they wish barring illegal discrimination? Shouldn't we restrict our Federal efforts to assisting those economically disadvantaged persons who do not have the means to obtain their own training or job opportunities? How can we finance this program through a "pay-or-play" mechanism imposed on employers and expect that such a tax will not have adverse effects on job creation and competitiveness? This hearing, I am sure, will raise many more such issues.

Nevertheless, job training and education are critical elements in our future ability to adapt to changing economic scenarios. We must work together to ensure that our Federal programs are coordinated and effective at delivering services. Likewise, we must make certain that Federal policies do not stand in the way of private sector efforts or hinder schools from engaging in their own reform efforts. I look forward to working with the chairman to accomplish these tasks.

PREPARED STATEMENT OF WILLIAM H. KOLBERG

The Commission on the Skills of the American Workforce was the first to show how our international competitors are focusing on raising the skill levels of their workforce to outproduce America. As a member of the Commission, I feel the "High Skills, Competitive Workforce Act of 1991" is a positive step forward in our Nation's efforts to keep pace economically and to revitalize our productivity in the world market.

The Act addresses a broad range of issues—world class educational standards, school-to-work transition assistance, increased employer investment in worker skills—that need to be tied together for an effective legislative answer to a growing national problem. American business can lead the way by transforming their workplaces into high-skill, high performance workplaces and creating the demand for high school graduates educated to the world-class standards called for in the Commission's 1990 report, "America's Choice."

The bill's sponsors deserve a great deal of credit for the diligence and foresight that went into drafting this legislation. Much work lies ahead. Workforce quality is the primary mission of the National Alliance of Business, and we look forward to working with the Congress to ensure that the legislation which is passed helps solve the problem.

The CHAIRMAN. The committee stands in recess.

[Whereupon, at 12:25 p.m., the committee was adjourned.]

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